93-1

EXPORT PRIORITIES ACT

HEARINGS

BEFORE THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

ON

S. 2053

TO AMEND THE EXPORT ADMINISTRATION ACT OF 1969, TO PERMIT THE PRESIDENT TO USE EXPORT CONTROLS TO CURTAIL SERIOUS INFLATION IN DOMESTIC PRICES

S. 2411

TO AMEND THE EXPORT ADMINISTRATION ACT OF 1969 TO PROVIDE FOR THE REGULATION OF THE EXPORT OF AGRICULTURAL COMMODITIES

H.R. 8547

TO AMEND THE EXPORT ADMINISTRATION ACT OF 1969, TO PROTECT THE DOMESTIC ECONOMY FROM THE EXCESSIVE DRAIN OF SCARCE MATERIALS AND COMMODITIES AND TO REDUCE THE SERIOUS INFLATIONARY IMPACT OF ABNORMAL FOREIGN DEMAND

SEPTEMBER 26 AND 27, 1973

Printed for the use of the Committee on Banking, Housing and Urban Affairs

U.S. GOVERNMENT PRINTING OFFICE
22-874 O WASHINGTON : 1973

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EXPORT PRIORITIES ACT

WEDNESDAY, SEPTEMBER 26, 1973

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:10 a.m., pursuant to call, in room 5302, Dirksen Senate Office Building, Senator John Sparkman (chairman of the committee) presiding.

Present: Senators Sparkman, Stevenson, Johnston, Packwood, and Brock.

The CHAIRMAN. Let the committee come to order, please.

We are expecting some other Senators to be here. Of course the Senate is in session and some of them have business over on the floor, but quite a number have indicated their intention of being here.

I think we had better get started with the hearings.

First we have John K. Tabor, Under Secretary of the Department of Commerce; Carroll Brunthaver, the Assistant Secretary, Department of Agriculture; James W. McLane, Deputy Director, Cost of Living Council; and Deane Hinton, Deputy Director, Council on International Economic Policy.

We are very glad to have you gentlemen with us.

Mr. Tabor, will you take charge of the panel and conduct it?

Senator JOHNSTON. Mr. Chairman.

The CHAIRMAN. Yes.

Senator JOHNSTON. I would like to say a word, if I may, before the witnesses start.

The CHAIRMAN. Yes, of course, Senator Johnston.

Senator JOHNSTON. Mr. Chairman, I made a statement on September 20 rather vigorously opposing export controls, particularly on agricultural commodities, pointing out that in my judgment this country has the capacity to use the agricultural products to supply the world, in effect, and this is our one real hope to achieve parity in the balance of payments.

I would comment at this point before American agriculture has had a chance to supply these needs of the world, to put on export controls simply because we have got some inflation in domestic prices, whatever that is, I think at this point before American agriculture has had a chance to supply these needs of the world, to put on export controls simply because we have got some inflation in domestic prices, I think would be the biggest mistake this country could make.

I think it would be a mistake of staggering monumental proportions. We have never given American agriculture a chance yet. We have just released some 59 or 60 million acres in land, which has been out of production, just put into production. I think our agricultural community, particularly in the agricultural community, has shown its ability to respond. I think the same thing is true in other segments of the economy, so far as exports are concerned.

Now, for those matters that are truly scarce materials and where there is truly an abnormal foreign demand, we already have that authority. But to go further than that, which the present legislation provides, and to allow the President to clamp on these controls simply because there is some kind of inflation in domestic prices, I think would be very unwise, so I would like to see the panel address that basic question.

I would like to know also what inflation in domestic prices means. And it seems to me that means whatever the President wants it to mean, because inflation is a relative thing.

In effect, this bill would give the President virtually unlimited authority to put controls on exports, limited only by the veto of his own appointed Secretary of Agriculture. So, it would seem to me this would be very unwise. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Before we continue let us insert copies of the bills being considered in the record.

[Copies of the bills follow:]

93D CONGRESS
1ST SESSION

S. 2053

IN THE SENATE OF THE UNITED STATES

JUNE 22 (legislative day, JUNE 18), 1973

Mr. TOWER (for himself and Mr. SPARKMAN) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

A BILL

To amend the Export Administration Act of 1969, to permit the President to use export controls to curtail serious inflation in domestic prices.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 3(2)(A) of the Export Administration Act of 1969 (50 U.S.C. App. 2402(2)(A)) is amended to read as follows: "(A) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials, to curtail serious inflation in domestic prices, or to reduce the serious inflationary impact of abnormal foreign demand,".

II

(b) Section 4 (c) of such Act (50 U.S.C. App. 2403 (c)) is amended by inserting after the words "the domestic economy" the phrase "from serious price inflation or".

(c) Section 4 (e) of such Act (50 U.S.C. App. 2403 (e)) is amended to read as follows:

"(e) To effectuate the policy set forth in clause (A) of paragraph (2) of section 3 with respect to any agricultural commodity, the authority conferred by this section shall not be exercised without the approval of the Secretary of Agriculture.".

93D CONGRESS
1ST SESSION

S. 2411

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 13, 1973

Mr. JAVITS (for himself and Mr. STEVENSON) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

A BILL

To amend the Export Administration Act of 1969 to provide for the regulation of the export of agricultural commodities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Export Priorities Act".

SEC. 2. The Export Administration Act of 1969 is amended—

(1) by inserting immediately before the caption of section 1 the following:

"TITLE I—GENERAL PROVISIONS";

(2) by redesignating sections 1 through 14, and all cross references thereto, as sections 101 through 114, respectively;

II

(3) by striking out "this Act" wherever it appears in sections 101 through 114, as redesignated, and inserting in lieu thereof "this title";

(4) by striking out "This Act" in section 113 (a), as redesignated, and inserting in lieu thereof "This title"; and

(5) by adding at the end thereof the following new title:

"TITLE II—AGRICULTURAL EXPORT CONTROLS

DEFINITIONS

"SEC. 201. As used in this title—

"(1) the term 'Secretary' means the Secretary of Commerce unless otherwise indicated; and

"(2) the terms 'agricultural commodity' and 'commodity' mean any raw agricultural commodity produced in the United States, including flour, meal, and oil derived from any such commodity.

"DETERMINATION OF QUANTITY AVAILABLE FOR EXPORT

"SEC. 202. (a) Within ninety days after the beginning of the crop year for any agricultural commodity, the Secretary of Agriculture shall determine the quantity of the crop of such commodity, if any, that will be available for export and inform the Secretary of Commerce thereof, who shall thereupon publicly announce such determination.

"(b) Such determination shall be made by estimating the total quantity of the commodity that will be produced in the crop year and subtracting from such quantity (1) the quantity of the commodity the Secretary of Agriculture estimates will be needed for domestic consumption, and (2) the quantity of the commodity the Secretary of Agriculture estimates will be needed for a reasonable carryover, including a reasonable quantity for disaster relief assistance and other emergency conditions. The quantity of the commodity remaining, if any, shall be the quantity available for export.

"EXPORT LICENSING AND ALLOCATION OF EXPORT AUTHORITY

"SEC. 203. (a) No agricultural commodity may be exported to any foreign country in any year unless the person exporting such commodity has been issued an export license by the Secretary for the quantity of such commodity to be exported to such country or unless such commodity has been exempted under section 207 (a) (3) of this Act.

"(b) The quantity of any commodity available for export in any crop year shall be allocated among foreign countries by the Secretary on the basis of the quantity of such commodity exported to such countries during a representative base period and on the basis of such other factors as the Secretary determines to be fair and equitable and sufficient to protect the interests of traditional customers of the

United States. In carrying out his functions under this subsection, the Secretary shall consult with the Secretary of Agriculture, the Secretary of State, with other departments and agencies of the United States Government, and with other interested persons. The Secretary may from time to time make such adjustments in allocations under this subsection, including the reallocation of any unused foreign country allocation, as may be necessary to meet changes in international supply or demand or to avoid hardship.

"(c) The Secretary may, in his discretion, reserve not more than 10 per centum of the quantity of a commodity available for export in order to meet unexpected increases in foreign demand resulting from natural disaster, crop failure, changes in existing trading patterns in that commodity, or other similar causes.

"ISSUANCE OF EXPORT LICENSES

"SEC. 204. (a) Each year, at such time as he determines appropriate, the Secretary shall announce, in the case of each foreign country, the quota determined for such country for each commodity. At the same time the Secretary shall announce the time, manner, and place for the submission of bids for the purchase of licenses to export specified quantities of such commodity to specified countries.

"(b) Licenses for the export of any commodity in any year shall be sold to the highest responsible bidders unless the

Secretary determines that the bids are too low or that there has been collusion among the bidders.

"ADMINISTRATIVE REVISION OF QUANTITY AVAILABLE FOR EXPORT

"SEC. 205. The Secretary may revise upward or downward the quantity of any commodity previously announced as available for export in any year if he determines on the basis of new information that the quantity originally announced was erroneous or that the quantity originally announced should be revised for other reasons.

"EXPORTS TO DEVELOPING COUNTRIES

"SEC. 206. The Secretary may issue a license to any exporter without the payment of a license fee if, after consultation with the Secretary of Agriculture, Secretary of State, and the Secretary of the Treasury, he determines that (1) the license is for the export of a commodity to a developing foreign country with a serious balance-of-payments deficit, and (2) such action would be in the best interests of the foreign relations of the United States and would not adversely affect the regulatory program provided for in this title.

"ADMINISTRATION

"SEC. 207. (a) The Secretary is authorized to issue such rules or regulations as may be necessary to carry out the provisions of this title, including rules and regulations—

"(1) providing for the reduction, suspension, or termination of the allocation of any agricultural commodity made under this title to any foreign country if the Secretary finds that such country is reexporting all or any portion of such allocation under circumstances that tend to disrupt the regulatory program established under this title;

"(2) limiting or prohibiting the sale or transfer after issuance of export licenses issued under this title if the Secretary finds such limitation or prohibition necessary to the orderly administration of the regulatory program established under this title; and

"(3) exempting from application of this Act any agricultural commodity the domestic production of which the Secretary determines will equal or exceed domestic and foreign demand.

"(b) The authority conferred on the Secretary by this title shall not be executed without the approval of the Secretary of Agriculture.

"USE OF FUNDS RECEIVED

"SEC. 208. Fees collected by the Secretary on export licenses issued under this title shall be deposited in a special account in the Treasury and shall be available without fiscal year limitation to help carry out the National School Lunch Act, the Child Nutrition Act of 1966, the Food Stamp Act of 1964, and the commodity distribution program provided for under section 416 of the Agricultural Act of 1949, except that not less than 10 per centum of such fees shall be available only for carrying out agricultural research and conservation program to increase agricultural productivity.

"APPLICABILITY

"SEC. 209. This title shall be applicable to agricultural commodities harvested in calendar year 1974 and subsequent years."

Union Calendar No. 153

93D CONGRESS
1ST SESSION

H. R. 8547

[Report No. 93–325]

IN THE HOUSE OF REPRESENTATIVES

JUNE 8, 1973

Mr. ASHLEY introduced the following bill; which was referred to the Committee on Banking and Currency

JUNE 25, 1973

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

A BILL

To amend the Export Administration Act of 1969, to protect the domestic economy from the excessive drain of scarce materials and commodities and to reduce the serious inflationary impact of abnormal foreign demand.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 4(e) of the Export Administration Act of 1969 (50 U.S.C. App. 2403(e)) is amended to read as follows:

"(e) (1) The Secretary of Commerce, in consultation with appropriate United States Government departments and agencies and any appropriate technical advisory committee established under section 5(c) (2), shall undertake an investigation to determine which materials or commodities shall be subject to export controls because of the present or prospective domestic inflationary impact or short supply of such material or commodity in the absence of any such export control. The Secretary shall develop forecast indices of the domestic demand for such materials and commodities to help assure their availability on a priority basis to domestic users at stable prices.

"(2) To effectuate the policy set forth in clause (A) of paragraph (2) of section 3 with respect to any agricultural commodity, the authority conferred by this section shall not be exercised without the approval of the Secretary of Agriculture."

"(3)(A) On Tuesday of each week, the Secretary shall publish in the Federal Register with respect to each group of agricultural commodities listed in subparagraph (B) and each category within each such group the following information:

"(i) estimated domestic supply (including any reserve and carryover) of such commodity as of the day preceding the date of publication of this information in the Federal Register,

"(ii) the estimated domestic requirements for such commodity by crop year,

"(iii) the estimated domestic use of such commodity

by crop year as of the day preceding the date of publication of this information in the Federal Register, and

"(iv) the exports and commitments of such commodity by crop year as of the day preceding the date of publication of this information in the Federal Register.

"(B) The following is the listing of agricultural commodities referred to in subparagraph (A):

"Group I—Wheat

"Wheat—Hard red winter.

"Wheat—Soft red winter.

"Wheat—Hard red spring.

"Wheat—White.

"Wheat—Durum.

"Group II—Rice

"Rice in the husk, unmilled.

"Rice, husked, long grain.

"Rice, husked, medium grain.

"Rice, husked, short grain.

"Rice, husked, mixed.

"Rice, parboiled, long grain.

"Rice, parboiled, medium grain.

"Rice, parboiled, short grain.

"Rice, parboiled, mixed grain.

"Rice, milled, containing 75 percent or more broken kernels.

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"Rice, milled, long grain, containing less than 75 percent broken kernels.

"Rice, milled, medium grain, containing less than 75 percent broken kernels.

"Rice, milled, short grain, containing less than 75 percent broken kernels.

"Rice, milled, mixed grain, containing less than 75 percent broken kernels.

"Group III—Barley

"Barley, unmilled.

"Group IV—Corn

"Corn, except seed, unmilled.

"Group V—Rye

"Rye, unmilled.

"Group VI—Oats

"Oats, unmilled.

"Group VII—Grain sorghums

"Grain sorghums, unmilled.

"Group VIII—Soybeans and soybean products

"Soybean oil-cake and meal.

"Soybeans.

"Group IX—Cottonseeds and cottonseed products

"Cottonseed oil-cake and meal.

"Cottonseed."

(b)(1) Section 3(2)(A) of the Export Administration

Act of 1969 is amended by striking out "and" and inserting in lieu thereof "or".

(2) Section 4(c) of the Export Administration Act of 1969 is amended by inserting "or to reduce the serious inflationary impact of abnormal foreign demand" immediately after "scarce materials".

~~(b)~~ *(c)* Section 5 (c) of the Export Administration Act of 1969 (50 U.S.C. App. 2404 (c)) is amended by redesignating paragraphs (2), (3), and (4) as paragraphs (3), (4), and (5), and—

(1) by inserting immediately after paragraph (1) the following new paragraph:

"(2) Upon written request by representatives of a substantial segment of any industry which processes materials or commodities which are subject to export controls or are being considered for such controls because of the present or prospective domestic inflationary impact or short supply of such materials or commodities in the absence of any such export controls, the Secretary of Commerce shall appoint a technical advisory committee for any grouping of such materials or commodities to evaluate technical matters, licensing procedures, worldwide availability, and actual use of domestic production facilities and technology. Each such committee shall consist of representatives of United States industry and government. No person serving on any such committee who is representative of industry shall serve on such committee for more than two consecutive years. Nothing in this subsection shall prevent the Secretary from consulting, at any time, with any person representing industry or the general public regardless of whether such person is a member of a technical advisory committee. Members of the public shall be given a reasonable opportunity, pursuant to regulations prescribed by the Secretary of Commerce, to present evidence to such committees.";

(2) in paragraph (4) thereof, as redesignated by this subsection, by striking out "such committee" and by inserting in lieu thereof "committee established under paragraph (1) or (2)"; and

(3) in paragraph (5) thereof, as redesignated by this subsection, by striking out "such committee" the first time it appears therein and inserting in lieu thereof "committee established under paragraph (1) or (2)".

SEC. 2. The Export Administration Act of 1969 is amended by redesignating sections 10, 11, 12, 13, and 14 as sections 11, 12, 13, 14, and 15, respectively, and by inserting immediately after section 9 the following new section:

"LUMBER AND LOGS

"SEC. 10. (a) For each of the calendar years 1973 and 1974—

"(1) not more than two billion five hundred million board feet (Scribner scale) of softwood logs may be sold for export from the United States; and

"(2) not more than one billion board feet (lumber scale) of softwood lumber may be sold for export from the United States;

unless the Secretary of Agriculture shall certify, within thirty days of the date of enactment of this section, that there shall be offered for sale from national forests not less than eleven billion eight hundred million board feet (local log scale) of softwood timber during each such calendar year.

"(b) No unprocessed timber may be sold for export from the United States from Federal lands located west of the one hundredth meridian. Such limitation on exports shall stay in effect until the President determines that there is available for domestic use an adequate supply of softwood logs and lumber at reasonable price levels. Upon making such determination, the President may remove such limitation on a partial basis, up to an annual maximum of three hundred and fifty million board feet in the aggregate.

"(c) After public hearing and finding by the appropriate Secretary of the department administering Federal lands referred to in subsection (b) of this section that specific quantities and species of unprocessed timber are surplus to the needs of domestic users and processors, such quantities and species may be designated by the said Secretary as available for export from the United States in addition to that quantity permitted under subsection (b) of this section.

"(d) The Secretaries of the departments administering lands referred to in subsection (a) of this section shall issue rules and regulations to carry out the purposes of this section, including the prevention of substitution of timber restricted from export by this section for exported non-Federal timber.

"(e) In issuing rules and regulations pursuant to subsection (d) of this section, the appropriate Secretaries may include therein provisions authorizing the said Secretaries, in their discretion, to exclude from the limitations imposed by this section sales having an appraised value of less than $2,000."

The CHAIRMAN. All right, Mr. Secretary.

STATEMENT OF JOHN K. TABOR, UNDER SECRETARY, DEPARTMENT OF COMMERCE, ACCOMPANIED BY CARROLL G. BRUNTHAVER, ASSISTANT SECRETARY, DEPARTMENT OF AGRICULTURE; JAMES W. McLANE, DEPUTY DIRECTOR, COST OF LIVING COUNCIL; DEANE HINTON, DEPUTY DIRECTOR, COUNCIL ON INTERNATIONAL ECONOMIC POLICY; AND RICHARD HULL, ACTING ASSISTANT GENERAL COUNSEL, DEPARTMENT OF COMMERCE

Mr. TABOR. Mr. Chairman, on behalf of myself and my colleagues, it is a pleasure to be here and we hope to provide useful information for this committee's decision. We have already identified those persons who are present. I just want to locate them at the table for the Senators.

Mr. Carroll Brunthaver, the Assistant Secretary of Agriculture at my left and at my right is Deane Hinton on the Council on International Economic Policy. James McLane is two seats to my right; Deputy Director of the Cost of Living Council, and the Assistant General Counsel for the Department of Commerce, Mr. Richard Hull is at my extreme left.

Since Senator Johnston has raised a very fundamental point, I want as a point of clarification, which will be expanded as we move forward, to assure Senator Johnston of two things:

No. 1, just as a point of clarification, this act does not impose controls; it is not a requirement that controls be imposed. Let there be no unclarity about that.

It gives the standby authority only. It does not impose controls.

Senator JOHNSTON. Could I break in at that point, Mr. Chairman.

The CHAIRMAN. Yes; indeed.

Senator JOHNSTON. It is true that it does not impose controls, but what our trading partners, like Japan, are going to think when they see the authority of the President, given to him by the Congress, to impose at any time export controls on soybeans, for example?

They are not going to consider the soybean source, the United States to be a very reliable source, because they will know any time we get scarce over here, we will get export controls and that will mean in turn, I think, that they will protect their own markets, encourage their own markets, and rather than rely on us to produce those soybeans, they will begin to produce their own protected by their own laws and they ought to protect them; unless we are going to be reliable, so, while it may not be mandatory, it is very unwise to suggest that we are going to do it.

Excuse me, Mr. Chairman.

Mr. TABOR. Mr. Chairman, I would like to return to a fuller discussion of that point in the questioning period. I have an obligation, I think, to present the views of this group representing the administration.

The CHAIRMAN. Proceed.

Mr. TABOR. As you know, Mr. Chairman, and Senators. Secretary Dent, Secretary Butz, and Dr. Dunlop have already appeared before this subcommittee on June 25 to discuss the actions taken with respect to exports of certain agricultural commodities, and to explain the need for the additional authority provided in S. 2053, to impose export controls under the Export Administration Act.

We today are pleased to appear on behalf of our respective departments and agencies to update the earlier testimony in light of the events which have occurred since that date.

So, may I first summarize the actions which have been taken under the Export Administration Act since June 25.

I would like to interject here the ultimate fact, and I think it is of importance to Senator Johnston, that, as of October 1 the only existing short supply controls will be those on exports of ferrous scrap. There will be no controls on exports of agricultural products.

Actions speak very loudly. As part of the actions to stabilize the economy announced by President Nixon on June 13, and to curb rising farm product prices which is the major contributor to inflation during 1973, the Department of Commerce instituted a system under which exporters were required to report the anticipated exports of a variety of agricultural products. This reporting requirement has been extended to include other commodities in addition to those initially subject to the requirement for reporting, including cotton.

The reports indicated very high export commitments with soybean and soybean meal supply low, resulting in supply depletion before the new crop was to become available in September. Therefore, the Department of Commerce, in early July imposed controls on the exports of soybean, soybean meal, cottonseed, and cottonseed meal. A few days later in July it was necessary to impose controls on 41 other agricultural commodities because the foreign demand for soybeans and cottonseeds could be transferred to these commodities, and the foreign buyers were beginning to order large quantities of these other substitute commodities from U.S. suppliers. As required by the Export Administration Act, these actions were specifically approved by the Secretary of Agriculture and were based on his determination under section 4(e) of the Export Administration Act that the supply of these commodities would not be adequate to meet the requirements of the domestic economy.

Since taking these actions, the administration has closely followed the supply/demand situation in soybeans and the related commodities and various steps were taken to liberalize the export restrictions which had been imposed on all these commodities. Most recently, we announced that all contracts entered into on or after September 8 for September delivery, would be honored 100 percent.

On September 21, the Department of Commerce announced that all short-supply controls on exports of agricultural commodities would be removed effective October 1. Thus, as I indicated earlier, as of October 1, there will be no short-supply restrictions whatsoever on exports of agricultural commodities, and the only commodity remaining under short-supply controls will be ferrous scrap.

Exports of ferrous scrap have been subject to export controls since July 2. Actual exports of ferrous scrap during the first half of 1973, plus anticipated exports already contracted for as of July were substantially in excess of the highest total ever previously exported in a full calendar year.

More than half of the exports were to Japan. Therefore, after consultations, the Japanese Government voluntarily agreed to cut back its imports of ferrous scrap to 5 million tons during 1973. This had the effect of reducing U.S. exports by almost 2 million tons during 1973. In addition to this action by the Japanese, no licenses were issued against orders placed after July 1, if the order was 500 tons or more.

All orders for 500 tons or more accepted on or prior to July 1 were licensed 100 percent. Orders for less than 500 tons were licensed regardless of the date the order was placed. However, by September 12 the volume of license applications against small orders reached such a high volume that the Department of Commerce announced that license applications filed after September 10 would not be processed except against small orders of stainless steel scrap.

Today the Department of Commerce announced the licensing policy for exports of ferrous scrap during the balance of this calendar year. Licenses will be issued for exports during October, November, and December against 100 percent of orders of 500 tons or more which were accepted on or before July 1. Orders for export to Japan will continue to be licensed only on the basis of import licenses issued by the Japanese under their voluntary program to defer delivery of U.S. ferrous scrap.

As to the small orders of less than 500 tons for ferrous scrap, these will not be licensed except for export to Canada and Mexico. Licenses for exports to these two countries will be limited to a total monthly volume of 60,000 tons and 15,000 tons, respectively.

In other words, 75,000 tons for each of these 3 months, which will total 225,000 tons.

The allocation of such licenses among U.S. exporters will be based on their prior export history of exports during 1973 of shipments of ferrous scrap to these two countries.

A listing of all the short-supply actions taken to date since June 13 is attached to this statement as appendix A [see page 26].

As of June 25, firm figures were not yet available for final crop yields of wheat, corn, soybeans, and other major crops. Since then, crop reports have been compiled and we are now in a position to estimate more accurately supply and demand for the 1973–74 period.

The U.S. Department of Agriculture's agricultural supply and demand estimates for 1973, released on September 17, are attached to this statement as appendix B [page 29]. These estimates point out that production of basis food commodities is expected to be up in the 1973–74 crop year. However, due to the large drawdown of carryover stocks this past crop year, next year's carryover will be low for most commodities. The margin of safety in these stocks, except for soybeans, is not as large as we would desire, considering world market conditions and its vagaries resulting from unexpected floods, droughts, severe winters and the like.

Hence the prospects for supplies continue tight through the middle of 1974.

It is also important to recognize that the growth in agricultural trade has as Senator Johnston mentioned, been of enormous benefit to our Nation. During fiscal year 1973, U.S. agricultural exports surged to $12.9 billion, a 60-percent increase over the previous year.

Our agricultural exports exceeded agricultural imports over the last 10 years to develop export markets for U.S. agricultural products which have been successful. These markets support U.S. farm income and provide part of the foreign earnings needed by the United States to pay for its imports, including the large volume of foreign oil on which we depend to satisfy our energy requirement.

All of us realize that the retention of these export markets depends in large part on whether the countries who rely on imports of U.S. agricultural commodities to feed their people and livestock are confident that the United States will remain a reliable source of supply. If our historic trading partners lose their confidence, they will seek by whatever means possible to develop their own food production capability or to switch to another source of supply.

We recognize this export control has a serious disruptive effect on the foreign markets of the United States. This is why this administration is committed to the proposition of imposing such controls only when absolutely necessary and then only for as long as they are needed to assure adequate supply for U.S. consumers at prices they can afford. This commitment is demonstrated by the announced termination, effective October 1, of export controls on all agricultural commodities.

The U.S. demand/supply picture for agricultural commodities in the foreseeable future will continue to be affected by conditions prevailing worldwide. As standards of living increase, so will world demand for high protein foods and livestock feeds.

The United States as the world's principal producer of these basic commodities will be called upon to satisfy a substantial portion of this foreign demand and we are unlikely to experience again the situation which prevailed during the fifties of huge U.S. agricultural surpluses which could not be disposed of.

This we regard as a positive change, beneficial to the farmer who may be assured of a fair return on his investment and beneficial to the Nation, since this has a substantially favorable impact on the U.S. balance of trade.

At the same time, it highlights the fact that the stability of U.S. food prices and the adequacy of the food supply available to the American consumer may be affected by cyclical events abroad, such as major crop failures, fluctuations in rates of exchange, and so on.

Thus, domestic shortages and unusually large increases in domestic prices may arise not as a consequence of long-term predictable secular trends, but rather suddenly, often as a consequence of natural phenomena and abrupt changes in trade or monetary policy. This points up the need for more flexible authority than is currently available under the Export Administration Act, to authorize the President to regulate exports of any commodity whenever such action is required to curtail serious inflation in domestic prices.

And that is what particularly brings us before you.

The Export Administration Act—the law now on the books—authorizes short-supply export controls when all of the following criteria have been met:

(a) A necessity to protect the domestic economy from the excessive drain of a scarce material, in other words, a shortage;

(b) That controls will reduce a serious inflationary impact which is caused by:

(c) Abnormal foreign demand.

S. 2053 introduced on June 22 by Senators Sparkman and Tower would amend the Export Administration Act to authorize the imposition of export controls to curtail serious inflation in domestic prices without the necessity of finding that there is "abnormal foreign demand" and that the commodity to be controlled is a "scarce material," and importantly, it would also eliminate a provision of the Act, enacted in 1972, which prohibits the Secretary of Agriculture from approving a control on the export of an agricultural commodity during any period for which the supply is determined by him to be in excess of the requirements of the domestic economy.

This latter provision in the existing law required, we respectfully submit, that we go right to the brink—and the reasons why the authority provided in S. 2053 is required can be summarized as follows:

(1) Although the actions taken to date in controlling exports of certain agricultural commodities were justified under current law because all three statutory criteria were met, it may be necessary to impose controls from time to time in the future to curb domestic inflation even when the other two criteria—abnormal foreign demand and scarcity, are not fully met. This bill permits that; the existing law does not.

(2) Because of the strictness of the present three statutory criteria, present authority may be exercised only after a situation has become quite serious. As a result, it may and indeed was necessary to abrogate existing export contracts in order to protect domestic supplies. With the broader authority provided in this bill, action can be taken sooner, before the situation has reached the point of actual shortages, and the possibility of abrogating existing contracts would be considerably reduced.

Under current law, however, the Secretary of Agriculture is precluded from approving "short supply" controls now on an agricultural commodity until he determines that there exists a shortage or imminent threat thereof. At such a stage, it would no longer be possible to act preventively, and quantitative restrictions more disruptive to the export trade, would have to be imposed.

(3) Where the domestic production of a commodity considerably exceeds domestic requirements—which is the case with principal crops, wheat, corn and soybeans—it is difficult to determine actual scarcity even though there may be some cause for concern and export controls should be imposed to guard against a prospective scarcity.

(4) The "abnormal" foreign demand criterion may be difficult to establish in a situation where the exports are no greater than in previous years.

(5) Controls may have to be imposed to guard against foreign stockpiling and/or speculative buying which would have an inflationary impact on domestic prices, even though there would be no scarcity if U.S. buyers were willing to pay the higher prices.

(6) The existence of broad standby authority could discourage excessive foreign stockpiling and/or speculative buying.

(7) It will enable controls to be placed on the export of a commodity to curb domestic inflation without precluding exports of that commodity under Public Law 480, which would be impossible under existing statutory authority.

In closing, we would like to stress that the President's request for this additional authority does not stem from a belief that more controls on exports of U.S. products are needed or even desirable.

Quite to the contrary, the President has repeatedly stated—in his June 13 address on the Nation's economy, in his July 18 statement announcing phase 4 controls and as recently as September 10 in his second state of the Union message to the Congress, that he is firmly opposed to the establishment of a permanent system of controls on exports.

I would like, Mr. Chairman, to submit for the record the excerpt from the President's second state of the Union message on September 10 and also just to quote the particularly pertinent material as to the question raised by one of the committee members. The President said:

> This is why I have asked for new and more flexible authority to establish certain controls on food and other exports when and where they are needed. I continue to oppose, however, permanent controls, because they can upset and discourage our entire pattern of healthy trade relationships, and thus complicate the fight against inflation. Our limited controls on soybeans were changed last Friday to permit full exports on new contracts. This action was taken because we are convinced that stocks and new crop supplies are more than adequate to meet our own need. Nevertheless, I still seek the authority I requested last June, to be sure that we will be able to respond rapidly, if necessary, to new circumstances.
>
> I also emphasize that new controls will be imposed only if they are absolutely needed.

And it is precisely because of the administration's commitment to preserving the freedom of the marketplace so essential to the healthy long-range development of our trade relationships and building up of our agricultural markets abroad to encourage continued expansion of farm production in this country that we need the additional authority contained in S. 2053 to be able to respond rapidly and in timely fashion to new circumstances when and if temporary restrictions on exports of a particular commodity are essential to curb substantial domestic inflation. In short, a free market is far more desirable than a controlled market. But, if controls are necessary to maintain adequate supplies of food and other commodities essential to all Americans at reasonable prices, timely and flexible action is far less disruptive than belated retroactive action. The language of S. 2053 permits flexible measures—particularly toward licensing—to be imposed in a timely manner.

Mr. Chairman, this completes our prepared statement, and we would be pleased to answer any questions which you and the members of the committee may wish to ask.

[The attachments to Mr. Tabor's statement follow:]

APPENDIX "A" - - - SUMMARY OF EXPORT CONTROL ACTIONS BY DEPARTMENT OF COMMERCE

Effective Date	Synopsis	Citation to Economic Control Bulletin series and Federal Register
May 22, 1973	Reporting system established for export orders and actual exports of ferrous scrap.	ECB No. 84, 5/22/73; 38 F.R. 13488, 5/22/73, as revised by 38 F.R. 13746, 5/25/73.
June 13, 1973	Reporting system established for wheat, rice, barley, corn, rye, oats, grain soybeans, cottonseeds and their products.	ECB No. 84(a), 6/13/73; 38 F.R. 15772, 6/15/73.
June 27, 1973	Embargo placed on soybeans, cottonseeds and various meal and oil products thereof.	ECB No. 86, 6/27/73; 38 F.R. 17260, 6/29/73.
June 28, 1973	Reporting requirements extended to include agricultural products under embargo which were not previously subject to reporting.	ECB No. 87, 6/28/73; 38 F.R. 17493, 7/2/73.
July 2, 1973	Licensing system established for exports of soybeans, cottonseeds, and meals thereof, against binding commitments for export entered into and reported as of June 13; embargo on other products lifted.	ECB No. 88, 7/2/73; 38 F.R. 17814, 7/3/73.
July 2, 1973	Licensing system established for ferrous scrap exports during July against binding commitments for export of 500 short tons or more entered into and reported as of July 1, 1973, and against orders for less than 500 short tons regardless of date of commitment.	ECB No. 89, 7/2/73; 38 F.R. 17815, 7/3/73, as revised by 38 F.R. 18030, 7/6/73.

APPENDIX "A" Cont'd

Effective Date	Synopsis	Citation to Economic Control Bulletin series and *Federal Register*
July 5, 1973	Licensing system against pre-June 14 export commitments extended to 41 additional agricultural commodities: vegetable oils, animal fats and protein meals.	ECB No. 90, 7/5/73; 38 F.R. 18028, 7/6/73.
July 6, 1973	Reporting requirements expanded to include exports and anticipated exports of cotton.	ECB No. 91, 7/9/73; 38 F.R. 18467, 7/11/73.
July 10, 1973	Hardship licensing procedure established.	ECB No. 92, 7/10/73; 38 F.R. 18555, 7/12/73.
July 19, 1973	Special licensing procedure established for soybean oil-cake and meal en route to port or in port for export as of June 27.	ECB No. 93, 7/19/73; 38 F.R. 19682, 7/23/73.
July 27, 1973	Licensing system established for exports of ferrous scrap during August.	ECB No. 93(a), 7/27/73; 38 F.R. 20336, 7/31/73.
July 28, 1973	Licensing system established: (1) for exports of soybean and cottonseed oils against commitments reported as of July 20, and (2) for exports of other oils, protein feeds, and animal fats against exporter's July-September 1972 export history.	ECB No. 93(b), 7/28/73; 38 F.R. 20334, 7/31/73.
Aug. 1, 1973	Licensing system established for exports of soybeans during September against 100% of pre-June 14 commitments previously reported for September export.	ECB No. 95, 8/1/73; 38 F.R. 21177, 8/6/73.

APPENDIX "A" Cont'd

Effective Date	Synopsis	Citation to Economic Control Bulletin series and *Federal Register*
Aug. 24, 1973	Licensing system established for exports of ferrous scrap during September.	ECB No. 96, 8/24/73; 38 F.R. 23322, 8/29/73.
Aug. 29, 1973	Reporting requirements for agricultural products revised.	ECB No. 97, 8/29/73; 38 F.R. 23777, 9/4/73.
Sept. 7, 1973	Licensing system for agricultural products revised to permit exports during September against 100% of commitments entered into on or after September 8.	ECB No. 98, 9/10/73; 38 F.R. 25184, 9/12/73.
Sept. 11, 1973	Requirement of separate report for sales of agricultural products where country of export shipment is optional.	ECB No. 99, 9/11/73; 38 F.R. 25446, 9/13/73.
Sept. 12, 1973	Discontinuance of export licensing for orders of less than 500 short tons of ferrous scrap (except for stainless steel) for export during September.	ECB No. 100, 9/17/73; 38 F.R. 26206, 9/19/73.
Sept. 21, 1973	Discontinuance of short supply controls on agricultural commodities effective October 1.	ECB No. 101, 9/24/73

AGRICULTURAL SUPPLY & DEMAND ESTIMATES

APPENDIX B

1973

Approved by the Outlook and Situation Board • U.S. Department of Agriculture • September 17, 1973

FOR IMMEDIATE RELEASE

#1

HIGHLIGHTS

Prospects for feed grain, soybean, wheat, and cotton crops improved in August, easing somewhat the tight supply-demand pressures for the 1973/74 marketing year. For rice, the pressures persist despite a large increase in the 1973 crop. Some of the tables in this new report carry projections for 1974 crops and 1974/75 marketings. Legal restrictions prevent the publication of production projections for cotton. The 1974 program has not yet been announced for rice. The 1974 data are very rough approximations. They are mainly indications of expected directions of change. These projections are subject to change as additional information becomes available. A report for release Dec. 21 will provide the official estimate of the planted acreage of winter wheat. Planting intentions for other major crops will be reported early in 1974.

STRONG DEMAND TO OUTWEIGH HUGE WHEAT CROP

The 1973 wheat crop, for which harvest is nearing completion, is a record-large 1.7 billion bushels but total supplies are down a tenth from last year and are the least since 1967 because of reduced stocks of old-crop wheat. Total use for 1973/74, although expected to be down somewhat from last season, will exceed 1973 production and further reduce the carryover next summer to about 300 million bushels. Acreage and production should expand further in 1974, offset the reduced carryover, and boost the supply a little above the current level. Assuming little change in total use, stocks could then increase around 100 million bushels.

FEED GRAIN PROSPECTS BRIGHTEN

A boost in corn and sorghum crop prospects in the past month has eased the tight supply-demand situation for feed grains a little. Although beginning stocks for 1973/74 are down sharply, the increased production in prospect will keep the total supply nearly up to the 1972/73 level. However, use will likely about equal last season's record volume and result in a small further decline in stocks at the end of the 1973/74 year. Exports

- over -

NOTE This is the first issue of a new report that is designed to be regularly published shortly after release of major crop and stocks reports from USDA. It is the product of an effort to give the public the timeliest analytical information available officially from the Department. A schedule of upcoming release dates will be made available soon.

may be down a little but domestic use--with slightly more grain-consuming animals than last season--may increase further. A substantial increase in plantings may occur next year, pointing to some buildup in stocks a year hence.

The soybean carryover as of September 1, 1973, is now plrced at 65 million bushels. The crop has progressed very well, and the total supply for 1973/74 is estimated almost 23 percent more than last year's. Even with estimated crush and exports expected to increase by 15 percent over last year's level, the soybean carryover for next September 1 is projected at 200 million bushels, triple this year's very small carryover.

SOYBEAN COMPLEX BREATHES EASIER

Both domestic use and exports of soybean meal in 1973/74 are expected to increase. The export figure in the table reflects an evaluation of the reported total export intentions for soybean meal, reflecting the anticipated world protein supply-demand situation and considering meal's joint product relationship with soybean oil.

The soybean oil carryover (crude and refined) on October 1, 1973, is expected to be tight. However, increased soybean oil production in 1973/74 should permit an increase in domestic use of about the normal 300 million pounds. Because of an anticipated increase in competing world supplies, including soybean oil from U.S. bean exports, and a reduction in U.S. Government PL-480 export assistance programs, 1973/74 exports of oil are estimated at 1 billion pounds, down about 200 million from 1972/73.

Projected soybean planted acreage for 1974 is down a little because of the large anticipated increases in corn and cotton acreages and the assumption of normal 1974 crop planting weather.

COTTON CROP IMPROVES, BUT RESERVES TO STAY LOW

Although production prospects improved in the past month, the crop is still expected to fall 6 percent short of 1972's. Also, total use may slightly exceed the 1972/73 volume. Larger exports may more than offset smaller anticipated mill use. Thus, the carryover next summer may be a little smaller than the 3.8 million bales of August 1, 1973.

RICE SITUATION TIGHT

The September crop report forecast the 1973 rice crop at 98.4 million cwt., 16 percent above 1972. (The forecast does not reflect possible losses resulting from tropical storm Delia in early September). The larger crop would more than offset the smallest beginning stocks since 1962, boosting supplies. But world demand is expected to continue strong. The world supply is the tightest in years. Ending U.S. stocks may rise slightly by the summer of 1974.

UPLAND COTTON

Item	1971/72	1972/73	1973/74 based on -- August indications	1973/74 based on -- September indications
Acreage (Thousand Acres)				
Planted	12,253	13,903	13,029	13,029
Harvested	11,370	12,888	12,318	12,288
Set-aside	2,061	2,049	0	0
Yield Per Harvested Acre (Pounds)	438	507	493	502
	(Thousand 480-lb. Bales)			
Supply				
August 1 Beginning Stocks 1/	4,223	3,309	3,782	3,782
Production	2/10,294	2/13,567	12,648	12,853
Imports and City Crop	82	53	75	75
Total 3/	14,601	16,930	16,505	16,710
Disappearance				
Mill Consumption	8,082	7,667	7,400	7,300
Exports	3,378	5,303	5,700	5,900
Total 3/	11,461	12,970	13,100	13,200
Ending Stocks	1/ 3,309	1/ 3,782	3,405	3,510

1/ Based on Census Bureau data.
2/ In season ginnings.
3/ May not add due to rounding.

Prepared by: Interagency Cotton Estimates Committee
Thomas Beatty, ASCS, Chairman
Russell Barlowe, ERS
Dewey Pritchard, FAS
Geron Rathell, EMS

WHEAT

Item	1972/73 Preliminary	1973/74 Based on -- August Indications	1973/74 Based on -- September Indications	Projected 1974/75 *
Acreage (Mil. Acres)				
Set-aside	20.1	7.4	7.4	0
Planted	54.9 1/	58.8	58.8	66.0
Harvested	47.3	53.7	53.7	58.1.
Yield Per Harvested Acre (Bu.)	32.7	32.0	32.2	32.6
		(Million Bushels)		
Supply				
Beginning stocks	863	428	428	301
Production	1,545	1,717	1,727	1,894
Imports	1	1	1	1
Total	2,409	2,146	2,156	2,196
Disappearance				
Domestic	796	757	755	791
Exports	1,185	1,100	1,100	1,000
Total	1,981	1,857	1,855	1,791
Ending Stocks	428 2/	289	301	405

1/ Includes 2.6 million acres planted and subsequently designated as voluntary set-aside. 2/ Excludes grain in transit, the volume of which was abnormally large as of the survey date.

Prepared by: Interagency Wheat Estimates Committee
Paul King, ASCS, Chairman
Donald Novotny, FAS
Charles Pence, EMS
James Naive, ERS

* These 1974/75 projections are rough approximations based on presently available data. They are mainly indications of expected directions of change. Each of the numbers should be considered as representative of a fairly wide range rather than as a precise estimate. These projections are subject to change as additional information becomes available about crop and weather conditions here and abroad; changes in economic conditions; availability of inputs such as fertilizer and fuel; and other developments that could lead to changes in producers' production and marketing decisions.

RICE

Item	1971/72	1972/73 Estimate	1973/74 Est. Based on September Indications
Acreage			
Allotment (1,000 A)	1,836.5	1,836.5	2,222.1
Planted (1,000 A)	1,826.0	1,824.0	2,178.8
Harvested (1,000 A)	1,817.9	1,817.9	2,168.6
Yield per Harvested Acre (Lb.)	4,718	4,684	4,537
		(Million Cwt. Rough)	
Supply			
Beginning Stocks, Aug. 1	18.6	11.4	5.1
Production	85.3	85.2	98.4
Imports	1.1	0.5	1.0
Total	05.5	97.1	104.5
Disappearance			
Domestic	35.4	35.8	37.2
Exports	56.9	54.0	58.1
Total	92.3	89.8	95.3
Ending Stocks, Jul. 31	11.4	5.1	9.2
Difference Unaccounted	+1.8	+2.2	

Prepared by the Interagency Commodity Estimates Committee for Rice:

G. H. Schaefer, Chairman, ASCS
James Naive, ERS
Donald Novotny, FAS
D. J. Humphrey, EMS

CORN

Item (Mktg. year beginning Oct. 1)	1972/73 Preliminary	1973/74 Based on: August Indications	1973/74 Based on: Sept. Indications	Projected 1974/75 *
Acreage (Mil. acres)				
Set Aside	24.4	5.7	5.7	-0-
Planted	66.8	71.3	71.3	75.5
Harvested	57.3	61.5	61.5	65.5
Yield Per Harvested Acre (Bu.)	96.9	92.1	93.8	97.0
		(Million Bushels)		
Supply				
Beginning Stocks	1,126	775	775	725
Production	5,553	5,661	5,768	6,354
Imports	1	1	1	1
Total	6,680	6,437	6,544	7,080
Disappearance				
Domestic	4,655	4,627	4,694	5,030
Exports	1,250	1,125	1,125	1,050
Total	5,905	5,752	5,819	6,080
Ending Stocks	775	685	725	1,000

Prepared by Interagency Commodity Estimates Committee for Corn and Feed Grains:

William Askew, Chairman, ASCS
Donald Novotny, FAS
Sidney Constantinos, EMS
James Naive, ERS

* These 1974/75 projections are rough approximations based on presently available data. They are mainly indications of expected directions of change. Each of the numbers should be considered as representative of a fairly wide range rather than on a precise estimate. These projections are subject to change as additional information becomes available about crop and weather conditions here and abroad; changes in economic conditions; availability of inputs such as fertilizer and fuel; and other developments that could lead to changes in producers' production and marketing decisions.

FEED GRAINS 1/
(Includes Corn, Sorghum, Oats, and Barley)

Item	1972/73 Preliminary	1973/74 Based on: August Indications	1973/74 Based on: Sept. Indications	Projected 1974/75
Acreage (Mil. acres)				
Set Aside	36.6	9.1	9.1	--
Planted	115.2	121.7	121.7	126.0
Harvested	94.1	102.4	102.4	106.2
Yield Per Harvested Acre (Tons)	2.12	2.02	2.05	2.15
		(Million Short Tons)		
Supply				
Beginning Stocks	48.4	34.5	33.8	30.7
Production	199.8	206.6	210.3	228.4
Imports	0.4	0.4	0.4	0.4
Total	248.6	241.6	244.5	259.5
Disappearance				
Domestic	171.9	172.0	174.1	182.5
Exports	42.9	39.7	39.7	36.7
Total	214.8	211.7	213.8	219.2
Ending Stocks	33.8	29.8	30.7	40.3

1/ Marketing year beginning October 1 for corn and sorghum, July 1 for barley and oats.

SOYBEANS

Item	1972/73 Estimate	1973/74 Based on: August Indications	1973/74 Based on: Sept. Indications	Projected 1974/75 *
Acreage				
Planted (mil. A)	47.0	57.2	57.2	54.0
Harvested (mil. A.)	45.8	56.2	56.2	53.0
% Harvested	97.3	98.2	98.2	98.1
Yield Per Harvest. Acre (bu.)	28.0	27.4	28.5	29.0
		(Million Bushels)		
Supply				
Carryin, Sept. 1	72.0	50	65	200
Production	1,282.9	1,540	1,599	1,535
Total	1,354.9	1,590	1,664	1,735
Disappearance				
Crushings	721	775	775	875
Exports	480	600	600	650
Seed, Feed and Residual	89	90	89	90
Total	1,290	1,465	1,464	1,565
Carryover, Aug. 31	65	125	200	170

Prepared by the Interagency Commodity Estimates Committee for Soybeans, Flaxseed, Cottonseed and Oils:

Malcolm Maclay, Chairman, ASCS
Stanley Mehr, FAS
Clarence Goldsborough, EMS
George Kromer, ERS

* These 1974/75 projections are rough approximations based on presently available data. They are mainly indications of expected directions of change. Each of the numbers should be considered as representative of a fairly wide range rather than on a precise estimate. These projections are subject to change as additional information becomes available about crop and weather conditions here and abroad; changes in economic conditions; availability of inputs such as fertilizer and fuel; and other developments that could lead to changes in producers' production and marketing decisions.

SOYBEAN OIL

Item	1972/73 Estimate	1973/74 Based on: August Indications	1973/74 Based on: Sept. Indications	Projected 1974/75 *
		(Million Pounds)		
Supply				
Carryin, Oct. 1	785	375	365	665
Production	7,480	8,300	8,300	8,825
Total	8,265	8,675	8,665	9,490
Disappearance				
Domestic	6,700	7,100	7,000	7,300
Exports	1,200	1,000	1,000	1,200
Total	7,900	8,100	8,000	8,500
Carryover, Sept. 30	365	575	665	990

SOYBEAN MEAL

Item	1972/73 Estimate	1973/74 Based on: August 1 Indications	1973/74 Based on: Sept. 1 Indications	Projected 1974/75 *
		(1,000 Short Tons)		
Supply				
Carryin, Oct. 1	192	167	212	182
Production	16,670	18,370	18,370	19,550
Total	16,862	18,537	18,582	19,732
Disappearance				
Domestic	12,000	12,770	12,800	13,950
Exports	4,650	5,600	5,600	5,600
Total	16,650	18,370	18,400	19,550
Carryover, Sept. 30	212	167	182	182

The CHAIRMAN. Very well, Mr. Tabor.

Do any one of the other members of the panel have a supplemental or additional statement to make? Does this presentation represent the entire panel?

Mr. TABOR. That statement is on behalf of the entire panel, and the departments and agencies which they represent, Mr. Chairman. But we are all here to give answers to your questions.

The CHAIRMAN. Very well.

Senator Stevenson?

Senator STEVENSON. I congratulate you, Mr. Tabor, for a well-thought-out and convincing statement. I must say I approached this possibility of export controls with the greatest reluctance. I can see a need from time to time of preserving supplies of scarce materials and of controlling exports to control inflation.

Let me address a few questions to whomever on the panel is best equipped to answer. I have not had a chance to study the appendix which projects, among other things, the crop use and exports for 1972–73, and 1974–75 years.

Could we get for the record some current estimates—perhaps Mr. Brunthaver of the Department of Agriculture would be in the best position to give us these figures—on the projected sales, perhaps percentages of the crops would be the best way of doing it, of feed grains, corn, beans, wheat, cotton.

And another item, if you can, which is not, I believe, included in the schedule here—red meats. I have been finding in my own rather unscientific samplings of opinions that foreign buyers have been shifting, if not shifting, they are beginning to buy much larger quantities than I have ever seen before of red meats. We have seen it in the past in the case of pork—principally in the past. But I detect signs now of rapidly increasing beef exports.

So in addition to the grains which I mentioned, I think anything you have got on red meats would be helpful too, to give us a better feel for what we are up against.

Mr. BRUNTHAVER. Fine. Sir, in the appendix is our latest estimate of all of the grains, including soybeans and soybean oil, soybean meal, rice, and also cotton.

Let me just highlight for you some of the information here.

For the current year in wheat we think the carryover will be approximately 300 million bushels. This is down from the 428 million of this current July 1 and 863 million of last year. Of that, the production was 1,727 million. We think exports will be approximately 1.1 billion of the total.

For next year, we see farmers planting approximately 7 million additional acres of land for wheat. If yields hold at 32.6, which is not a record, but a fairly good yield, we should have a crop approaching 1.9 billion. We think exports during this 1974–75 period will be off just a little, giving us a carryover increase of about 100 million.

On corn, we are looking at a carryout at October 1 of this year of 775 million bushels. We will have a record production, at least as forecast, of 5,786 million, which compares with our previous record of 5.6. Despite this, we will have fairly strong domestic demands and export demands and our carryover will be reduced slightly to 725 million.

For next year, with the set-aside program open completely, and all of our land brought back into production, we are looking for a planted acreage of corn of 75.5 million, up from the 71.3 of this year, and another record corn production of 6.3 billion, 6.350, up from this year's 5.7.

On soybeans, the most soybeans we have ever used in this country is 1,290 million, which includes exports, which we think will be used this past year or was used this past year. As opposed to that, total usage of 1,290 million, our crop that will be harvested this fall is estimated now at 1.6 billion. So we will have a very substantial increase in the supply of soybeans. The carryover, which is 65 million this past September 1, will be increased to approximately 200 million we estimate for next August 31.

I think that highlights it. And we will be glad to supply for the committee our estimates of the imports of beef and our estimates of the exports.

We are, as you know, a net importer of meat into this country. We will continue, I think, to be a net importer, especially in beef.

The exports of pork have increased somewhat. We will supply for the record a history and a projection of what we see happening in pork exports.

Senator STEVENSON. That would be helpful.

Now in every case you mentioned your carryover stocks are increasing; are they not?

Mr. BRUNTHAVER. The exception is corn, where the carryover will go from 7.75 this October 1 down to 7.25 next October 1, but then picking up to 1-billion-bushel carryover on October 1, 1975.

Senator STEVENSON. It strikes me that the strain on the prices and on supplies on the basis of your figures is diminishing at the very time that we are being asked to give the Department of Commerce expanded export control authority, authority which was sufficient to permit the imposition of the soybean embargo in July.

What are we to infer from that? That you are not very confident about these figures, or you just want to be prepared for the worst?

I frankly am not very confident myself.

Mr. BRUNTHAVER. Well, sir, these are the best estimates that can be brought together and we are confident that they represent a fairly accurate estimate of what the situation is likely to be. I think as Mr. Tabor pointed out, we do not anticipate, especially with these numbers, we do not anticipate imposing export controls. But he did point out, and it is a fact that cutting across contracts that are actually entered into by exporters is probably one of the most disruptive things that we can do to international trade, to international confidence, to the whole trading system that we have in the world today.

When we cut across a contract, other countries feel no compunction at all against cutting across contracts. It is very disruptive.

Now stocks are low. We think they will pick up, but presently stocks are low, and there is a possibility of drought around the world, a possibility of drought in the United States. Or a possibility of major purchases by a country affected by a drought or a country that wants to stockpile. And this could be very disruptive, not only to the U.S. consumers, but to consumers in Japan, consumers in other countries who have come to rely on the United States as a consistent supplier of food.

Now if we wait or are forced to wait until actual sales are made, sales in excess of what can be made without drawing stocks too low, then we potentially can cause some disruptions in our own country, in Japan, and other places, that would not necessarily have to be made if we had more clear authority to anticipate the shortages, to allocate in an orderly manner exports to various countries without waiting until actual sales, large sales have been made and then being in a position of having to cut across and reallocate those supplies to Japan and other people. That is all we are asking for here.

We are not saying that controls are needed, or anticipated. Our numbers quite the contrary, we think we are in good shape as we move into this country's crop year.

Senator STEVENSON. My time is running out, and I have a myriad of questions but let me just ask a final question.

If stocks are—as the figures indicate—low, clearly foreign demand is now having a serious inflationary impact on not only food, but also feed grains prices.

Is the administration still encouraging agricultural exports? More specifically, exporters take advantage of the provisions in the Internal Revenue Code, which would provide tax incentives in sales abroad. The Internal Revenue Code gives the President the authority to suspend those tax incentives to export.

Now we are being asked to give the administration authority to impose export controls which most likely will be imposed on exports of agricultural commodities.

Have the DISC incentives been suspended for scarce commodities. Take the export of soybeans—was it suspended during the embargo, or was the Government on the one hand encouraging exports through the tax incentives and imposing controls on the other hand in the case of the same crop? And if they have not been suspended yet in the case of these scarce commodities, when will they be suspended, if at all?

Mr. TABOR. Senator, I will speak to that initially and maybe some of my colleagues would like to supplement my comments.

To the best of my knowledge—and that is subject to checking—the DISC's were not suspended at the time of the imposition of the expert controls, nor have they been suspended during this recent period of 2 years.

The point is a thoughtful one. I think that as we see the DISC matter, once again what we hesitate and don't want to get involved in, is off again/on again on the DISC. Some continuity here is essential.

As one of the Senators pointed out, the general encouragement of agricultural exports on a broad, long term basis is sound national policy for us. The DISC's are an element of long term policy to stimulate exports, and we are enormously encouraged, frankly, by the improved trade balance, the improved balance of payments.

Agriculture is a part of that, it is not all of it. That long term program we want to sustain. And we don't think we can sustain it if we put the DISC's on, put the DISC's off, move back and forth.

Senator STEVENSON. Well, what you are saying then is that in the long term, as a continuous policy, the United States should be encouraging agricultural exports, and to do that, we give tax benefits to exporters. I am not only impressed with the inconsistency of the attitudes of the administration, which at the moment is seeking authority to control agricultural exports, I am also highly doubtful, skeptical, that DISC's, in this hungry and increasingly affluent world where the dollar has been devalued some 35 percent, is needed to subsidize the taxpayers, the consumers at the taxpayers' expense, exports that demand is going to stay up there, with or without DISC's, and the opportunity is going to remain, with or without the DISC's.

The only beneficiaries of the DISC's are the speculators, the exporters, not the farmers.

Mr. TABOR. I think two of my colleagues would like to make some comment, both Deane Hinton and Mr. McLane, in response to your question.

Senator STEVENSON. I see the chairman looking a little impatient.

Mr. HINTON. Senator, I think you have put your finger on a real problem, one that we certainly have considered.

The Under Secretary says DISC is the law of the land and an administration policy, and we don't want to be turning it on and off.

We gave very careful consideration to the relation of DISC's to the soybean export controls. And I believe myself, although one can never be sure of how the decisions finally would have come out, I believe that we would have taken the DISC incentives off soybeans if we had not been in the position to believe and see that the period of application of the soybean controls was likely to be very short. But you have a point.

All I can say really is that we are aware of it, we did consider it. Happily for the United States, the soybean crop came along, it was tremendous, as the Secretary has said, we were able to get out of the control business fairly quickly, which we all welcome.

Mr. McLANE. The only thing I would like to add, Senator, to what has been said earlier, is this basic difference between short term and long term solutions to a very difficult problem the export control measures are really designed toward short term action, which will be temporary, to get us over a particular crisis, a particular hump.

Whereas, as has been pointed out by both the gentlemen, the whole DISC arrangement—and it is something we at the Cost of Living Council have been very interested in from the point of view that you have raised, is geared to the long term, our interest is increasing our exports. In the case of soybeans, which became a problem last summer, if you did something with DISC to solve this short-term problem, then those DISC operations in other sectors, and there are something like 4,300 companies with DISC operations now, begin to wonder where next does this arbitrary treatment of DISC come.

So that in the long run there would no longer be the incentive to go into a DISC operation to encourage exports.

Senator STEVENSON. You are willing to take the export controls on and off on an ad hoc temporary basis, but not the tax loopholes off for the exports. That is the way it strikes me.

Thank you, Mr. Chairman.

[The following was received for the record:]

Memorandum for: Henry B. Turner, Assistant Secretary for Administration.
Subject: Establishment of Electronic Instrumentation Technical Advisory Committee.

The Bureau of East-West Trade has received requests for the establishment of a technical advisory committee for electronic instrumentation and is satisfied that these requests meet the criteria set forth in the Export Administration Act of 1969, as amended. The committee would deal with a wide range of instruments used in the electronics industry, including related technical data. A charter for this committee is attached.

The committee will be solely advisory and will provide advice with respect to questions involving technical matters, worldwide availability and actual utilization of production and technology, and licensing procedures which may affect the level of export controls applicable to their respective commodities, including technical data related thereto, that are subject to U.S. and multilateral (COCOM) controls.

As in the case of the other committees established to advise and assist the Office of Export Control, discussions will almost inevitably involve classified information and for this reason, as well as others analogous to the policies cited in the Freedom of Information Act, a determination permitting closed meetings will be required. A separate request for such determination will be submitted prior to the first meeting of the committee.

No invitations for membership on this committee will, of course, be issued until the prospective members are cleared through the Director of Personnel and security clearances obtained.

I recommend that you sign the attached charter.

TILTON H. DOBBIN,
Assistant Secretary for Domestic and International Business.

DEPARTMENT OF COMMERCE CHARTER OF ELECTRONIC INSTRUMENTATION TECHNICAL ADVISORY COMMITTEE

1. ESTABLISHMENT

Pursuant to section 5(c)(1) of the Export Administration Act, as amended, (the "Act") (50 U.S.C. App. 2401 et seq.), the Director, Office of Export Control, has made the following determinations, copy attached, necessary to the establishment of the Electronic Instrumentation Technical Advisory Committee:

A. Representatives of a substantial segment of the electronic instrumentation industry have made written requests for the appointment of a technical advisory committee, and

B. Articles, materials and supplies of electronic instrumentation, including technical data and other information, are difficult to evaluate because of questions concerning technical matters, worldwide availability, and actual utilization of production and technology, or licensing procedures.

This charter is required by section 9(c) of the Federal Advisory Committee Act (Public Law 92–463, effective January 5, 1973).

2. MEMBERSHIP AND CHAIRMANSHIP

The Committee shall consist of up to 20 members from industry and government who shall be appointed by the Assistant Secretary of Commerce for Domestic and International Business. Industry members will be engineers or scientists or other qualified persons from a representative cross-section of the electronic instrumentation industry in the United States. Government members will, to the extent possible, be electronic instrumentation specialists or export control technicians. As provided in section 5(c)(1) of the Act, the industry members shall not serve on the Committee for more than two consecutive years. The Chairman shall be elected by the Committee as required by section 5(c)(4) of the Act.

3. DUTIES, FUNCTIONS AND ADMINISTRATIVE PROVISIONS

A. The Committee shall be designated as the "Electronic Instrumentation Technical Advisory Committee."

B. The objectives of the Committee are to advise and assist the Secretary of Commerce and other Federal agencies and officials referred to in section 5(c)(2) of the Act with respect to actions designed to carry out the policy set forth in section 3 of the Act. The Committee shall be consulted with respect to questions involving technical matters, worldwide availability and actual utilization of production and technology, and licensing procedures which may affect the level of export controls applicable to electronic instrumentation, including technical data related thereto, and including those which are subject to multilateral (COCOM) export controls. The Committee's activities will include considering and discussing technical or other data available to the Department of Commerce relating to the above-mentioned equipment; considering and discussing comments, evidence or presentations from other sources on the same matters; and, drawing on their experience and expertise providing advice to the Department with respect to these matters.

The Committee shall be consulted and kept fully informed of progress with respect to the investigation required by section 4(b)(2) of the Act.

C. The Committee will serve on a continuing basis within the limitations of the law.

D. The Committee will report and be responsible to the Director, Office of Export Control, Bureau of East-West Trade, Domestic and International Business Administration, Department of Commerce.

E. The Bureau of East-West Trade, assisted as necessary by other constituent elements of the Department reporting to the Assistant Secretary of Commerce for Domestic and International Business, shall provide clerical and other necessary supporting services for the Committee.

F. The Committee will be used solely for advisory purposes.

G. As provided in section 5(c)(3) of the Act, industry members may, upon request, be reimbursed for travel, subsistence and other necessary expenses incurred by them in connection with their duties as members of the Committee if the Assistant Secretary for Domestic and International Business deems it appropriate. Payment shall be from funds appropriated to carry out the provisions of the Act. The annual cost of the Committee is estimated at $5,000. An estimated ¼ man years of staff support will be required.

H. The Committee shall meet at least every three months at the call of the Chairman, unless the Chairman determines, in consultation with the other members of the Committee, that such a meeting is not necessary to achieve the purposes of the Act. Meetings and work of the Committee shall be subject to the provisions of section 5 of the Act as well as the provisions of the Federal Advisory Committee Act.

I. The Committee shall terminate no later than two years from the date this Charter is approved unless extended by the Secretary of Commerce for additional periods of two years. As required by section 5(c)(4) of the Act, the Secretary shall consult the Committee with regard to termination or extension of the Committee.

J. The date of approval of this Charter as indicated below shall be deemed the date filed for purposes of the Federal Advisory Committee Act and the date of the Committee's establishment for purposes of the Export Administration Act, as amended.

(Date)

Signed: --------------------------------
(Assistant Secretary of Commerce for Administration)

ELECTRONIC INSTRUMENTATION TECHNICAL ADVISORY COMMITTEE

STATEMENT OF FINDINGS

In accordance with Section 5(c)(1) of the Export Administration Act of 1969, as amended, and in accordance with the delegation of authority contained in the Department Order 10-3 of November 17, 1972, DIBA Order 46-1 of November 17, 1972, and DIBA Order 46-2 of December 4, 1972, I hereby make the following findings with respect to the establishment of a technical advisory committee on electronic instrumentation:

1. Requests have been received from a substantial segment of the industry for the establishment of such a technical advisory committee; and

2. The relevant articles, materials and supplies, including technical data, are difficult to evaluate because of questions concerning technical matters, worldwide availability and actual utilization of production and technology, or licensing procedures.

RARUR H. MEYER,
Director, Office of Export Control, Bureau of East-West Trade.
August 10, 1973

The CHAIRMAN. Thank you.

Senator Packwood?

Senator PACKWOOD. On June 25, when Dr. Dunlop, Secretary Butz, and Secretary Dent were here, they indicated that, under the Export Adminitration Act, they didn't have the power to put limitations on the export of agricultural products. Of course, 2 days later they did undertake to limit the export of several agricultural products.

What happened in the intervening 2 days to change your view of the power that you had?

Mr. TABOR. Senator, this is an accumulating problem and it grew, I suppose, to very, very serious proportions.

Senator PACKWOOD. In 2 days?

Mr. TABOR. I think there are problems of accumulation, whether it was 2 or 9, but we saw, for instance, in the soybean situation——

Senator PACKWOOD. Their statement was they didn't have the legal power under the act. It wasn't a question of fact or accumulation of facts. They simply didn't have the legal authority.

Mr. TABOR. I will not speak to the factual matters as to exactly how the rate of flow of the soybeans went. But I will say this, that at the time that the act was invoked, it was a very close call in terms of legal judgment by the general counsel of the various departments involved. And it was not what we believed was the clearest kind of authority and that is why we are back here to request, to be able, with the clear authority of the Congress, as the representatives of the people, to take these actoins rather than coming down to that very fine close call and waiting until the facts warrant a determination from the Secretary of Agriculture that there is a shortage now.

Senator PACKWOOD. Under the present law, could you prospectively limit or embargo agricultural products?

You talked about having to impair contracts. Wouldn't you say the authority is there under the existing law? You can look at next year and say we are going to be short of corn.

Mr. TABOR. I do not, Senator, with all respect. The present law requires, I think it is important to focus on the language of the act, that there must be a shortage. In other words, the action must be necessary to protect the domestic economy from the excessive drain of scarce materials. They are scarce, and long term anticipated scarcity is not within the definition of scarce, as I see it.

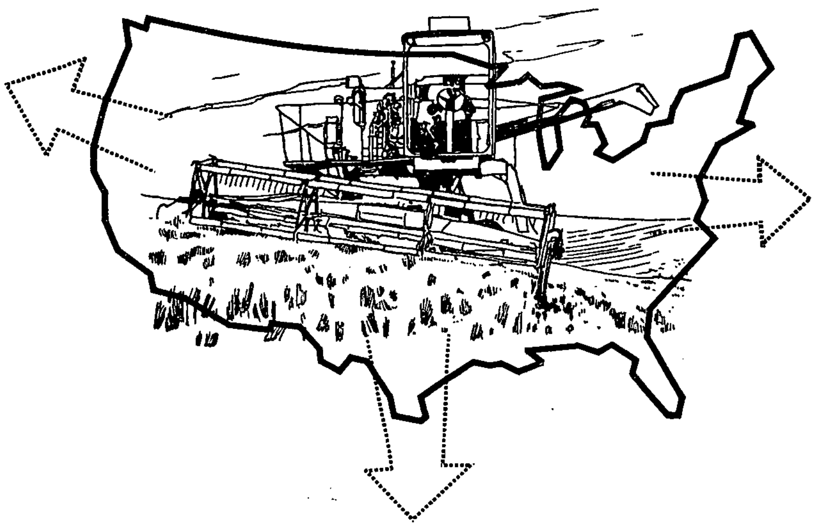
In addition to that, there must be inflation already existing, and in addition to that, there must be in being abnormal foreign demands. All of those must be present. That would not authorize the Secretaries to act on the basis of pure anticipation, in my opinion.

Senator PACKWOOD. I have no other questions, Mr. Chairman, but I would like to insert two documents in the record at this point.

[It was requested that the following documents appear in the record.]

Federal Reserve Bank of Dallas

Business Review



Trade Balance–
Farm Exports Could Be Pushed to Help Offset Rise in Fuel Imports

September 1973

Trade Balance–

Farm Exports Could Be Pushed To Help Offset Rise in Fuel Imports

The nation has shown a deficit in its balance of payments most years since World War II. But until 1971, the nation's merchandise trade balance was positive. And this surplus in trade offset much of the deficit resulting from other factors.

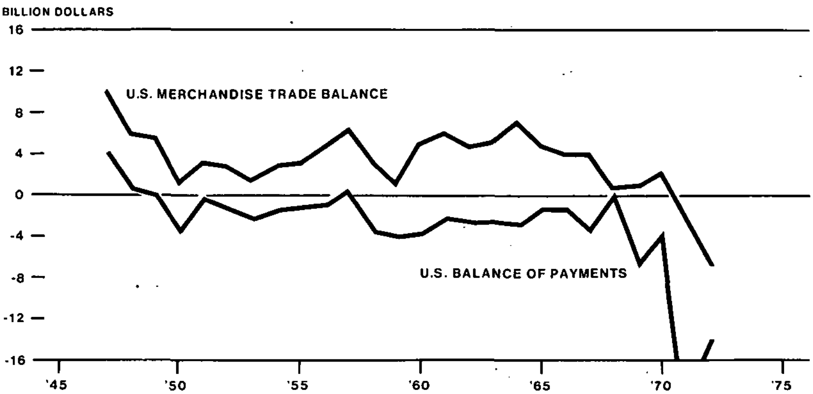
In the past two years, however, the payments deficit has been aggravated by a growing net trade deficit as imports have risen much faster than exports. And as the trade balance has deteriorated, increasing attention has been given to two industries that are especially important to the economy of the Southwest–petroleum and agriculture.

Agriculture has remained a major source of strength in the trade balance, showing growing net surpluses in the face of the general decline. But with large net trade deficits being recorded in petroleum and petroleum products, fuels have been readily identified as a definite present and future problem.

Since no quick or easy solution has been found to moderate the expected growth in fuel imports, focus on these two industries has intensified. Of the industrial components making up the nation's merchandise trade, agriculture seems to offer very real possibilities for the expansion in exports needed to help balance the rapid increase in fuel imports. Not only is world demand for farm products expected to rise rapidly, but the United States has a comparative, if not absolute, advantage among nations in the world in its ability to expand agricultural production to meet any rise in foreign demand.

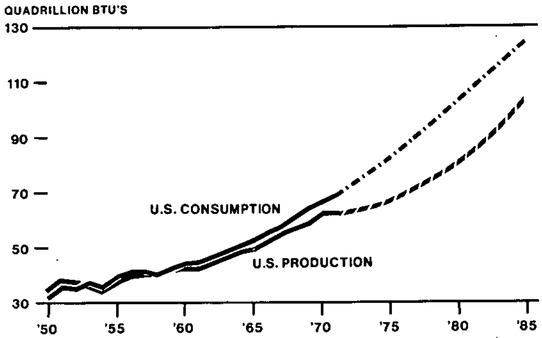
Of course, any exhaustive study of expected future trends in the nation's balance of payments must

Deficit also develops in trade balance



SOURCE: U.S. Department of Commerce

Energy consumption outrunning production



SOURCES: U.S. Bureau of Mines
Federal Reserve Bank of Dallas

consider all of its components and their interaction. A narrower focus necessarily sacrifices some of this interaction in order to concentrate attention on a smaller number of components of more immediate interest. And in view of this nation's strength in agriculture, it seems logical to ask whether, by itself, an increase in farm exports could provide the funds to pay for the expected increase in fuel imports.

Potential for fuel imports

The nation has been relying on fuel imports since it began consuming more energy than it produced about 20 years ago. The energy gap widened significantly in the late 1950's but held fairly constant through most of the 1960's as U.S. energy production expanded to keep just about apace with consumption. In 1970, however, the gap widened sharply as domestic production dropped off for the first time since the 1957-58 recession. And indications are that it will widen still further.

There has been little success so far with efforts to curb fuel consumption in this country. And the outlook through 1985 is for energy demands to continue rising–and probably faster than in the 1960's.

Efforts have also been made to encourage more exploration for domestic oil and gas. But it will still be years before these efforts are reflected in gains in production. Meanwhile, environmental and other constraints hamper growth in output of fuel, as well as the development of nuclear energy.

Unless policies can be initiated to stimulate faster growth in domestic production, approximately 30 percent of the energy consumed in the United States in 1985 may have to be imported. That will be in contrast to only about 12 percent in 1970.

Just how heavily fuel imports will weigh on the nation's trade balance depends, of course, on not only the volume of imports but also their prices. Prices, in turn, depend partly on the origin of the imports.

In the past, most of the fuel coming into this country has been petroleum from other countries in the Western Hemisphere, mainly Canada and Venezuela. But for several years now, the proportion coming from the Eastern Hemisphere has been rising. Last year, nearly 30 percent came from the Eastern Hemisphere, principally from Arab countries. And with some 70 percent of the world's proved oil reserves in Africa and the Middle East, this trend toward more imports from Arab countries is apt to continue–with possibly higher prices.

Tanker costs from the Middle East are, of course, much higher than costs for shipments from within the Western Hemisphere. Also, with the Middle Eastern countries controlling most of the world's reserves, a seller's market puts them in a position to command higher prices. With world demand running as high as it is, these countries could raise crude prices simply by holding back on production.

The payments problem of imports from the Middle East is further complicated by the size of populations in these countries and the historic composition and habits of their people. Unlike Canada and Venezuela, Arab countries have limited needs for American goods. As a result, the shift toward the Middle East as a source of fuel supplies diminishes the possibility that dollars spent for oil imports will flow directly back into the United States in payment for American exports to these countries.

The Soviet Union is another possible source of oil. That country is reported to have considerable oil potential and, having shown interest in American products, offers possibilities for bilateral trade. But exports of Soviet oil are not apt to be enough to ease upward pressures on world prices.

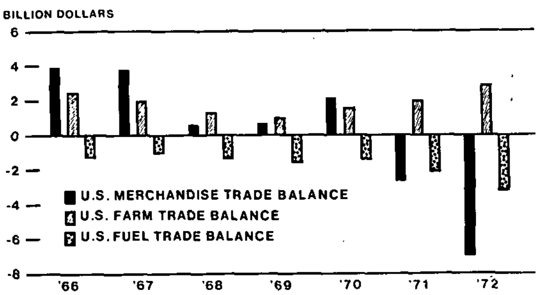
If Americans continue to increase their foreign purchases of more expensive refined products, average import prices may be boosted even further. And this could be accelerated if expansion of domestic refining capacity is restrained either by environmental concerns or by constraints of taxing or pricing policies.

To stimulate the production needed to hold back growth in imports, domestic prices may have to rise even faster than import prices. But consumer resistance to increases in prices is to be expected, as, possibly, are the environmental concerns that constrain the growth of both refining capacity needed for the high-sulfur crudes coming from overseas and the mining and drilling operations needed to step up domestic production.

On balance, the combination of higher prices and greater volume of imports could boost the cost of net fuel imports to around $34 billion by 1985–compared with $2.1 billion in 1970. If so, imports of fuel alone in 1985 would be nearly as large as receipts from all U.S. merchandise exports in 1968. (Implicit in this outcome is an assumed increase in the cost of fuel imports of 3 percent a year.)

With appropriate incentives for domestic exploration for additional fuels (principally oil and gas) and development of additional petroleum refining capacity, growth in the nation's dependence on imports could be slowed–particularly after the midseventies, when current efforts to increase production have had time to begin taking effect. The National Petroleum Council, for example, has estimated that with stronger price incentives and removal of environmental restraints on domestic industries producing energy, the rise in the net cost of fuel imports could be held to $7.5 billion in 1985. That would

Recent net farm exports almost equal net fuel imports



SOURCES: U.S. Department of Agriculture
U.S. Department of Commerce

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be at 1970 prices, however. If prices rose 3 percent a year, even this sharply reduced level of imports would cost $11 billion in 1985.

The further development of nuclear, solar, or coal energy supplies could also reduce this nation's needs for foreign oil. But it will take time and incentives to develop the capacity needed to supply more energy from these sources–particularly where new technology has to be developed. Scientists hope that, eventually, most domestic energy needs can be drawn from a nuclear fusion process that will permit consumption without reliance on depletable resources.

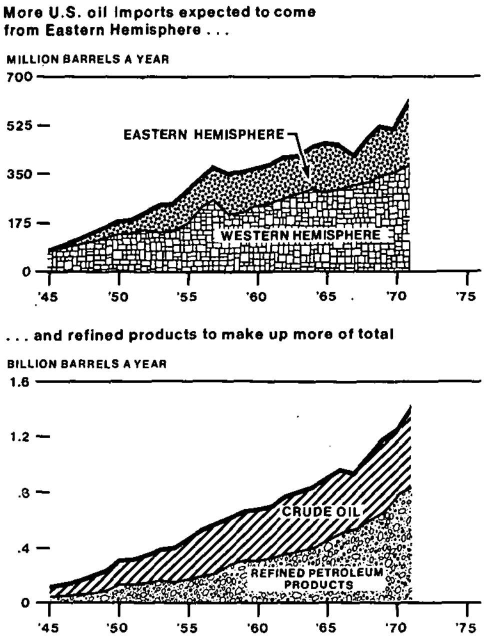
In the meantime, the United States will have to consider appropriate policies and actions, including those designed to increase merchandise exports, to pay for the increase in oil and gas imports. And farm sales represent one of the important components of foreign trade that could be expanded enough to make a material offset to the rise in fuel imports.

Potential for farm exports

Export markets have always been important to American farmers, and farmers have been shipping more of their products abroad over the years. Foreign sales had been trending upward for more than 20 years when they suddenly surged over the past year, leaving domestic supplies unexpectedly short.

Several factors were reflected in this unexpected bulge in exports. Aside from the longer-term growth in world demand for food and feed, there was, of course, the opening of trade with the Soviet Union that resulted in an enormous drain on U.S. grain bins. But there were also drouths in several of the world's major crop-producing areas, as well as a sharp drop in Peruvian exports of fish meal, a source of protein used in feed for livestock. With supplies of fish meal short, world demand for soybeans soared.

As farm shipments increased far more than expected, domestic supplies suddenly turned short. Furthermore, the stage of the cattle cycle combined with continued growth in feedlot operations to increase demands for feed. About 40 million additional acres of cropland have since been put into production in the United States. Because some of this additional acreage, which had been set aside under Government crop programs, was not released early enough for proper planting, production may not reach its full potential until next year. But by then–especially if weather in other important growing areas has returned to normal–U.S. production may be ample to



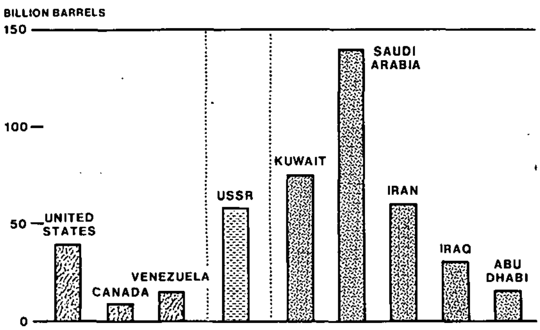
SOURCE: U.S. Bureau of Mines

meet the upward trend in foreign export demand and still satisfy domestic consumption requirements.

Most of the nation's farm shipments have usually been to developed countries. The biggest markets for U.S. farm products have been in Canada, Japan, and West Europe. But exports to less developed countries are also growing. And with the opening of new trade relations with the Soviet Union and other Communist countries, shipments likely can be expected to rise still higher.

To help meet the increase in world demand, the United States is better endowed with resources for agricultural production than any other country. With only 7 percent of the world's land mass, it has more than 12 percent of the cultivated land and nearly 9 percent of the pastureland. More importantly, in roughly the Corn Belt, it has about half the world's farmland with long summers of adequate rainfall. And in the old Cotton Belt across the southern states, it has a third of the world's humid semitropic farmland.

Middle East has 70 percent of world's crude oil reserves



SOURCE: World Oil

Combinations of temperate climates and fertile soil make these two regions suitable for the production of many crops, especially feed grains and soybeans–the crops in most demand. Together with other productive agricultural areas –such as the upper Prairie States, where short summers of adequate rainfall provide abundant grain harvests, and the dry southwestern and Rocky Mountain states, which provide the base for extensive cattle operations–these regions give the United States an absolute advantage in agriculture that parallels the Middle East's advantage in petroleum.

To the advantages of climate and soil can be added the rapid gains in productivity characterizing American agriculture. These gains have long provided expanding domestic markets with plentiful supplies of farm products while still making large amounts of products available for export.

Growth in productivity has been achieved mainly through technological advances and improvements in the organization of resources that encourage the substitution of capital for labor. Until this year, however, lack of effective markets prevented even faster gains in productivity that could have been achieved if returns to agriculture had been better.

With gains in production already outstripping the rise in domestic consumption, until this year, inputs to agriculture have been increased only slightly since 1960. Now, with incomes rising worldwide and markets strengthening, there are new opportunities for the application of unused agricultural capacity. And with the use of this capacity, even faster gains in productivity can be expected.

Continued advances in technology–including more productive varieties and more efficient cultural practices–along with increased use of fertilizer and other capital inputs, will doubtlessly push yields much higher over the next few years. And production gains–of possibly as much as 50 percent by 1985–will be far more than needed to meet the projected growth in domestic consumption, leaving an ever-widening margin of capacity for meeting export demand.

Such increases in output would reflect the addition of some 50 to 60 million acres of cropland that has been held out of production. Altogether, this land, which includes the 40 million acres recently released, totals about 15 percent of the nation's cropland. Almost all of this vast reserve will probably be needed to meet the rise in demand for farm products.

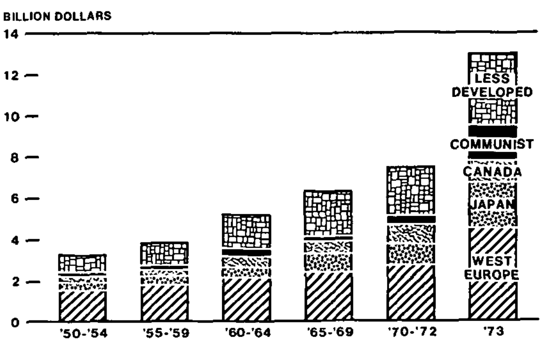
With the gains to be expected in productivity and more land going into use, rapid strides can be made in production of both crops and livestock. And if projections are anywhere close to accurate, farm output should be ample to meet the rise in domestic demand and still provide large amounts of farm products for export through at least 1985.

If livestock production increases over the next 12 years at about the same rate as in the past 12 years, output in 1985 will be more than a fourth higher than it is today. Poultry and beef production will most likely lead the advance, rising much faster than the nation's population. Pork production will probably rise in line with population.

Because of continued strengthening in export markets, growth in crop production will probably be even faster than over the past 12 years. By 1985, production should be more than two-fifths higher than today. Leading the advance will be soybean production, which is apt to double, and the output of feed grains, which could increase almost half again. Production of wheat and cotton will probably increase a fifth, and rice a third.

Even with the rest of the world also increasing its agricultural output, this country's share of total world trade in farm products should rise significantly between now and 1985. Demand for food is governed, in the main, by three factors–population, income, and production. World population is expected to reach close to 5 billion by 1985–a 35-percent increase over 1970. During that time, individual incomes are projected to rise about

U.S. farm export markets expand rapidly in 1973



SOURCES: U.S. Department of Agriculture
Federal Reserve Bank of Dallas

three-fourths. But on a per capita basis, agricultural production will have risen only about 9 percent.

Reflecting these projected changes, world trade in agricultural products is expected to advance some 60 percent. And since gains in per capita production in less developed countries will be needed to make up local deficiencies in output, surplus farm production will be concentrated in only a few countries—one of the most important of which will still be the United States.

So while diminished domestic stocks make for uncertainty in the nation's export farm markets right now, the longer-term outlook is for rapidly expanded shipments abroad. Overall, U.S. participation in world markets by 1985 should at least match the projected 60-percent increase in total world agricultural trade. If so, this country's farm exports could, in constant dollars, be worth nearly 60 percent more than in recent years.

Because production of wheat, cotton, and rice is so widespread, the outlook for these crops may not be as bright as for other farm products. Since the Soviet Union and East Europe will try to grow most of their own wheat, wheat exports from the United States may increase only moderately between now and 1985. Some increases in rice shipments can probably be expected. But cotton growers in the United States will still face the uncertainties of competition from both synthetic fibers and cotton grown in other countries.

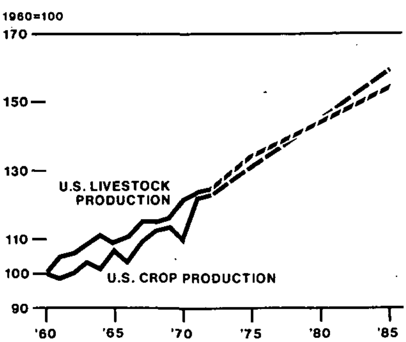
Among crop exports, the most favorable outlook is for soybeans, which is not only a highly versatile crop but also the most economical source of protein available. Growth in soybean shipments could easily keep up with gains in production, possibly doubling by 1985. And because increasing world affluence has created additional demand for fed cattle, the outlook is almost as good for feed grains.

Compared with crop exports, livestock shipments will be small but still higher than in recent years. And for the longer run, there is a possibility that livestock feeding might expand still further in the United States, providing meat that could be exported instead of feed grains.

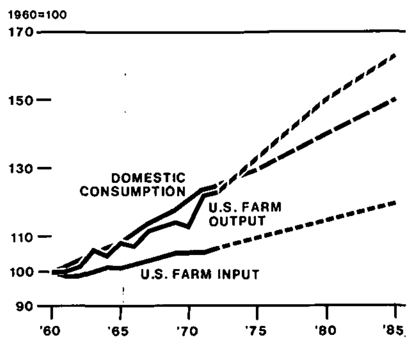
Against these exports must be counted considerable farm imports that will hold down the net contribution of agricultural sales to the balance of payments. Farm imports, rising about $250 million a year, reached a level of more than $6 billion in 1972. This upward trend is almost certain to continue.

Much of the increase in purchases of foreign farm goods is apt to be in either those that are highly labor-intensive, such as fruits and

Farm production expected to rise sharply

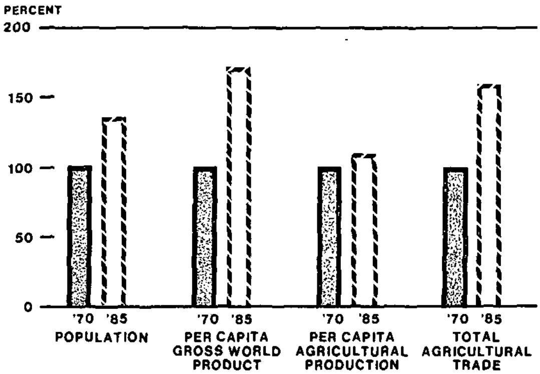


. . . far exceeding domestic consumption



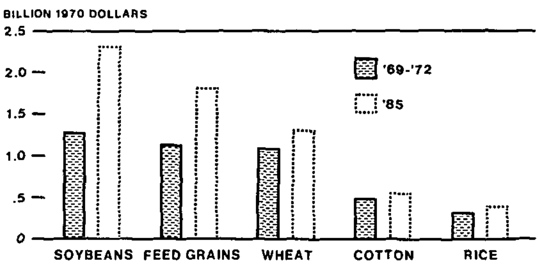
SOURCES: U.S. Department of Agriculture
Federal Reserve Bank of Dallas

World farm trade to expand 60 percent by 1985



SOURCES: International Monetary Fund and World Bank
U.N. Food and Agriculture Organization
Federal Reserve Bank of Dallas

Soybeans and feed grains to lead advance in U.S. farm exports



SOURCES: U.S. Department of Agriculture
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vegetables, or those with regulated prices, such as dairy products. And if trade is to be liberalized–a move that would benefit U.S. exports–other American farm products will have to be subjected to foreign competition. The adverse effect on the farm balance from such imports would be small, however, compared with the possible gains in exports.

Although this country's farm exports are increasing as economic relations shift worldwide, growth in trade is still hindered by conflicts between the domestic and foreign policies of all countries. In agriculture, as in petroleum, these policies are closely related–and generally at odds with conditions of free trade.

If there is no change in U.S. agricultural policies and the world economy continues to expand at about the rate projected, U.S. farm exports will probably be around $18 billion by 1985. With agricultural imports projected at $11 billion, the net trade balance in farm products should reach $7 billion.

Changes are being made, however. And along with other changes at work on the international scene, they could lead to a liberalization of agricultural trade that would allow net U.S. farm balances to go considerably higher.

One of the most important international changes is, of course, the rapid expansion of effective world food markets. With consumer incomes rising, expansion of markets for livestock products has been especially rapid.

But also important is the growing disenchantment with farm policies that restrict the flexibility of producers' responses to changes in supply and demand. Countries in the European Common Market have been particularly dissatisfied with their programs that allow farm surpluses to build up while prices continue to go higher.

There has also been disenchantment in the United States. For American farmers to participate more fully in world markets, changes will be needed to give the forces of supply and demand freer rein in seeking international price levels. These changes will become increasingly important as American farmers try to compete in the expanding markets for soybeans, grains, and livestock.

Benefits of more free trade could be substantial. With more liberal trade policies, U.S. agricultural exports could reach $25 billion by 1985. Although imports would also rise–though maybe only to about $12 billion–the net trade balance in farm products would still be $13 billion. That would be nearly twice again the balance to be expected with no liberalization of policies.

Some of this increase would come from more sales of livestock products. Most of it, however, would be due to greater crop shipments–especially feed grains and soybeans, the two crops in which the United States has a marked advantage.

A negotiating strategy for the United States aimed at achieving market orientation in farm trade would require that restrictions on farm imports be slowly removed as other countries were induced to ease their restrictions against U.S. products. For trade to become truly market-oriented, export subsidies and price supports would also have to be removed–at home and abroad.

Although a Government farm program might be helpful for several years in moderating short-term depressions of farm prices when supplies became excessive during the changeover to a freer market system, price supports could not be used indefinitely. Rigid price supports hinder resource adjustments–both in agriculture and without–preventing the market orientation needed for farmers to participate more fully in the growth of world markets.

Prospects for a tradeoff

Net farm exports came close to equaling net fuel imports in 1970. But trends to be expected from the continuation of current policies would leave this near-balance badly upset in just a few years.

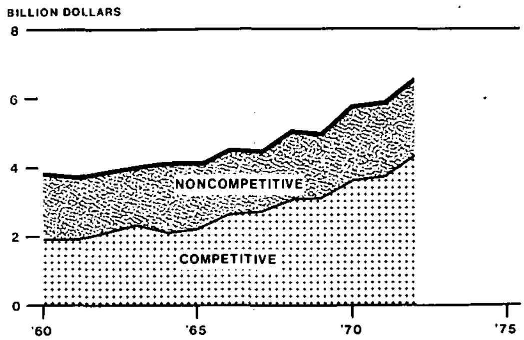
Without major policy changes–an indecisiveness that would allow net fuel imports to reach $34 billion by 1985 and prevent net farm exports from exceeding $7 billion–the balance could be tipped to a deficit of about $27 billion in only 12 years. On the basis of other trends in the nation's balance of payments, that would be a deficit that would not likely be made up from other trade sources.

Modifications in policies could change the outlook significantly. With appropriate policies to stimulate domestic fuel production and encourage the development of other energy sources, the National Petroleum Council estimates that fuel imports projected for 1985 could be cut by more than two-thirds, holding foreign purchases to about $11 billion. And with a liberal trade policy supported by appropriate domestic agricultural production policies, net farm exports could be nearly doubled, pushed possibly to $13 billion.

Under these most favorable circumstances, the United States likely could balance its increased farm shipments against the lower level of fuel imports. Whether this combination of conditions can be achieved, however, depends on policy considerations that are beyond ordinary economic determination.

Given the world's persistent need for more food and this country's absolute advantage in farm

Most growth in U.S. farm imports in competitive products



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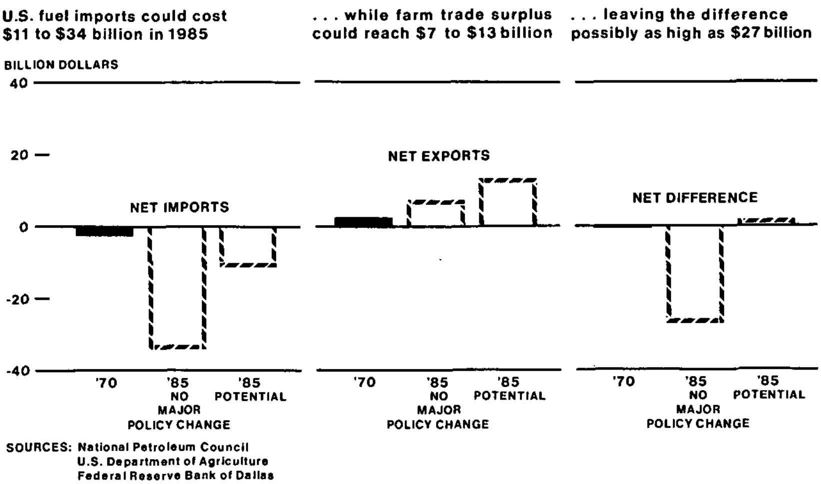

production, it seems apparent that more liberal trade policies are to be expected. But also given the seemingly unyielding growth in domestic demand for energy and the continued environmental constraints on domestic production of energy, it seems unlikely that fuel imports can be held to anything like their minimum level.

Efforts are being made, however, to encourage the search for more domestic oil and gas. And as the United States becomes more dependent on the Middle East for oil, the incentive for expansion of domestic production will increase still further.

On balance, then, it appears that while farm exports may not fully offset fuel imports, changes in farm and fuel policies are very apt to lead in that direction. The opportunity for closer balance is, at least, visible.

(from Chase Manhattan's International Finance, Sept. 24, 1973)

Long-term Growth in U.S. Farm Exports

The agricultural sector's *net* contribution to the U. S. balance of payments is projected to mount to about $4 billion by the end of this decade. This would be almost six times as large as the 1969-1971 average, but probably below 1973 performance. The projected net payments gain from agriculture includes assumptions relating to exports under aid programs.

Projected Export Gains. By 1980, the value of U. S. agricultural shipments should rise to $14-$15 billion—still double the 1969-1971 average, but up only 16% from the record $12.9 billion of fiscal 1973. Four major commodity groups—feed grains, wheat and flour, soybeans (including cake and meal) and cotton are expected to account for some 60% of total agricultural exports in 1980, compared with a 56% share in 1969-1971.

Processed and unprocessed soybeans are projected to record fastest growth of all farm exports, reaching a value of $4.6 billion in 1980. Feed grains, mainly corn, will be second in importance. Their 1980 export value could range from $1.8 billion to $2.3 billion, depending on how fast rising incomes abroad accelerate the upgrading of diets from cereals to meat products. Wheat will occupy third place, with 1980 exports of $1.6 billion; cotton will probably earn only $600 million, or less than 5% of total agricultural receipts. At the end of the 1970s, the United States should supply 45% of the world wheat market, compared with 40% a decade before. Oilcakes and meals will take 62% of the market, for a gain of a few percentage points. Feed grains and cotton will essentially stand pat, maintaining their 60% and 23% share of world markets, respectively.

The U. S. as a Commodity Exporter. The United States, more than any other major food-exporting country, has the land and the technology to expand farm output quickly, helping to fill the growing gap between world food demand and supply. Worldwide demand for food is projected to grow over the next decade at an average 3%-3.5% per year. In the developing nations, rapid population increases and the need to bring undernourished segments of the population up to acceptable dietary standards will sharply boost food demand. Rising incomes in the industrial countries will swell consumption of high-quality proteins such as meat. But producing *one* calorie of animal products requires an input of *seven* plant/cereal calories. The availability of these primary calories for animal feed stands as the crucial roadblock in upgrading diets worldwide—underscoring again the importance of the U.S. farmer.

Shorter-Term Trends. Many essentially unpredictable factors affect the world food situation, making projections out to 1980 tentative at best. Among these factors, weather is obviously most important, with political disturbances and international trade agreements at times playing a role. For example, unfavorable weather conditions in many growing regions during 1971 and 1972 curbed harvests and led to widespread food shortages. This brought about an unprecedented increase in agricultural exports from the United States, accompanied by a soaring rise in world prices to new highs. The two dollar devaluations and the upward float of most major currencies vis-à-vis the dollar contributed to these trends. U. S. agricultural exports jumped 60% in fiscal 1973, with feed grains, wheat and soybeans pacing the rise. As a result, farm products accounted for some 22% of merchandise exports, up from 18% the previous year. The agricultural trade surplus widened to $5.6 billion, a $3.5 billion gain over fiscal 1972. This summer, the price of a bushel of wheat rose to $5.43, from $1.80 a year earlier, and a bushel of corn went up in price from $1.29 to $3.47 over the same period.

U. S. agricultural exports over the past 12-18 months clearly have been running far above the long-term growth trend. While export demand is expected to remain high through 1974, the outlook beyond that is uncertain. Two or three consecutive good crop years in major producing countries would help bring worldwide supply and demand for food into better balance. In turn, this would drop world prices significantly from their 1973 peaks, as well as ease current strains on U. S. productive capacity.

The CHAIRMAN. I am not sure I got the answer to Senator Packwood's first question.

What date was it? June 25?

Senator PACKWOOD. June 25 they testified. On the 27th they announced the embargo on export of several commodities.

Mr. TABOR. I think the controls were July 2.

Senator PACKWOOD. I would suggest you study appendix A of your printed statement. It was June 27, 1973.

Mr. HULL. Senator——

Mr. TABOR. Mr. Hull was counsel at that time.

The CHAIRMAN. Yes.

Mr. HULL. The answer is that we instituted a reporting requirement on agricultural commodities on June 13. The initial report was due on June 20, and the first subsequent report was due on June 25.

As you know, at the beginning when we first set up this reporting requirement it was fairly complex, and the trade did not have any experience in how to answer the questions that were being asked, so that the data which we received in the first weekly report on June 20 had to be audited and checked before we could be sure that we had solid figures that would justify our taking an action under the act.

On June 25 none of the Secretaries were in a position to know that they had the data to back up the determination of a shortage which is required under the law.

The CHAIRMAN. It was this report that came very shortly after June 25, is that it?

Mr. HULL. The reporting requirement was established on June 13, and the first weekly report arrived on June 25. It had to be analyzed, bugs had to be taken out of the system, double reporting had been present——

The CHAIRMAN. In other words, it was right on the borderline.

Mr. HULL. That is correct, sir.

Mr. TABOR. Senator, I can merely amplify that in response to Senator Packwood. I recall a sense of shock that I observed in Secretary Dent as he read the aggregate statistics compiled from the June 25 report after these came out on the 26th. We didn't know we were as badly off factually as we were and he had not known of the factual situation on the 25th.

The CHAIRMAN. Yes; I can see that.

Is that sufficient?

Senator PACKWOOD. I might want to pursue this, then. You started, on June 13, with the reporting system for wheat, rice, barley, corn, rye, oats, grain, soybeans, cottonseed, and their products.

On the 27th you embargoed soybeans, cottonseeds, and various meal products.

On the 28th reporting requirements extended to include agricultural products under embargo, which were not previously subject to reporting.

Were you embargoing the export of products without the reports?

Mr. HULL. On the basis of the reports which we had received on the initial reporting requirement, there was reasonable grounds to believe that a similar situation was prevailing in these additional commodities.

Senator PACKWOOD. In essence, though, under the existing law, without any reports on certain commodities, you went ahead and instituted the embargo without any factual basis.

Mr. HULL. We had some data based on the substitutability of demands from one commodity to another. We had, of course, been getting reports on exports which admittedly by the time they reached us were fairly late in point of time because we were only able before to collect data on the basis of shippers' export declarations.

Senator PACKWOOD. Mr. Chairman, I won't push it any further. It occurs to me that the administration has all of the authority they need under the existing law. I am very reluctant to give them any further authority.

The CHAIRMAN. Senator Johnston?

Senator JOHNSTON. Mr. Brunthaver, you are with the Agricultural Department and frankly I find it a little strange that Agriculture should be here advocating increased authority to put on export controls on agricultural products. I would like to ask you particularly a couple of questions.

First of all, the roughly 3 months of export controls that we had on these commodities, were the Japanese understanding of our putting that on?

Mr. BRUNTHAVER. Well, first let me comment that I am a little surprised at my being here myself. But I think the Japanese, once we had an opportunity to sit down with them and to explain the facts to them, and to demonstrate to them that we were getting a larger increase in soybean supplies during that short year than our own customers in the United States were getting, that they were understanding.

Senator JOHNSTON. Let me put it this way: I have been reading, and I thought it was a fact, that they were exceedingly upset about the action we took and that to them was evidence that we were not reliable suppliers of soybeans. They haven't come to that firm conclusion yet, but they were alerted to that possibility.

Now, wouldn't this bill just exacerbate that kind of feeling and reinforce that suspicion on their part, and indeed on the part of other people around the world who have relied on us for these commodities?

Mr. BRUNTHAVER. Sir, it depends on the interpretation that they place on the action. If they view this as a step away from lossening up controls, yes; they would be upset. If they viewed it as I indicated, as a measure of providing for some orderly allocation in cases of acute emergency, they may agree with the action.

Mr. TABOR. Senator, if I could just state, based on my conversations with Secretary Dent, who did go to Japan and who did confer with the Japanese on this matter, they did not understand the factual situation, our domestic market, the proportions they were getting, and they did accept and were quite agreeable to the action when explained.

But going back to what we have stressed in this, the abruptness of the action was a shock to the Japanese, who are sensitive to matters of not being informed beforehand, and in this situation there was no signal sent to them. We did not have the flexibility to move until there was a shortage.

That is what we are asking. We are saying don't force us to the brink, don't make us take these drastic actions, allow us to anticipate a situation and to deal with inflation where there is demand or where we see an inflationary posture.

It was that sense of shock that was very much a part of the Japanese problem, in my opinion.

Senator JOHNSTON. What is the price of soybeans now?

Mr. TABOR. I am not a farmer, sir. I will ask Mr. Brunthaver to answer that question.

Mr. BRUNTHAVER. Approximately 5.5.

Senator JOHNSTON. What were they last year at this time?

Mr. BRUNTHAVER. About $3.

Senator BROCK. What are your futures, December or January contracts?

Excuse me for interrupting.

Senator JOHNSTON. The point I was going to make is prices are up now, at least virtually 100 percent over last year. Is that inflationary?

Mr. McLANE. There is no question that these prices were up. They are also down 50 percent, Senator, from what they were 3 months ago. Basic commodity prices rocket around quite a bit.

Senator JOHNSTON. Under this bill, would that be serious inflation in domestic prices?

Mr. McLANE. From what Carroll said, soybeans were around $3 a bushel a year ago. By June 5 they had risen to $12.27 which was clearly an inflationary increase.

Senator JOHNSTON. It was then, but is it now?

Mr. McLANE. I would say it is on a deflationary trend now inasmuch as soybean prices rose to $12.27 on June 5 but have been trending down since then. They are now around $5.50 to $6 a bushel.

Senator JOHNSTON. Are we in an inflationary situation now with meat?

Mr. McLANE. Again, meat is not in an inflationary situation inasmuch as choice steers are now selling at $38.50 per cwt as opposed to being up to $56.75 on August 14. So, again, we have a strong trend downward.

Senator JOHNSTON. I believe the American housewife thinks meat is in inflation now. And the point is that inflation is—all of these terms are difficult to define—but inflation is almost impossible to define. And I think if we give the President total carte blanche authority to impose export controls——

The CHAIRMAN. Senator Johnston, gentlemen, we have a rollcall in progress. I think we should recess.

I suggest that the first one back resume the hearing.

[Recess.]

Senator JOHNSTON [presiding]. The chairman has given me his proxy to start this hearing back up.

We are on the question of determining what is inflationary and what is not inflationary.

Aren't we in a long-term situation of rising prices in agricultural commodities, brought on by, as Senator Stevenson described, an increasingly hungry and dollar-possessing world? Aren't we likely to see long-term rises in agricultural commodities of all sorts over the next decade?

Mr. BRUNTHAVER. We think that we have moved from one plateau that we have been on for several years to a somewhat higher plateau. I don't think as high as current prices would indicate, but we are undoubtedly at a higher plateau of demand and price.

Senator JOHNSTON. You are talking about plateau. Aren't we really in an ascending plateau, that is going to ascend for some time?

Mr. BRUNTHAVER. I don't think so.

Senator JOHNSTON. The average farm family has been making about 54 percent of what the nonfarm family makes. Don't you expect that the farm family will start to move in the direction of parity with other nonfarm families?

Mr. BRUNTHAVER. Yes, sir, because we hope that the farmer will be able to use all his lands and produce more, and with higher yields, and better marketing opportunities, he will have an opportunity to sell a greater amount and to increase his net income.

Senator JOHNSTON. If these shortages are really such a problem why don't we stockpile these commodities? And the Government pay for them? Why wouldn't that be a superior solution?

Mr. BRUNTHAVER. Sir, we have a stockpile, a reserve policy in this country today. Whenever the production is such that the price goes down, stocks are accumulated under the loan, they are carried by the farmer or they are carried by the Commodity Credit Corporation.

Senator JOHNSTON. Excuse me; that loan program is really not meant to be a stockpile. That is just meant to be a temporary sale, in effect, to the farmer. I mean for the farmer to guarantee his price, rather than to stockpile.

Mr. BRUNTHAVER. Regardless of that, it is the mechanism by which we accumulate stocks when supplies are plentiful and prices are depressed and we release those stocks when prices increase.

Now, I think your question is a good one, and we are trying to operate American agriculture at full capacity. We intend to do this.

Now, if production is large and the demand is weaker, and it looks like we are going to accumulate stocks, then we are going to have to make a decision: Do we continue to accumulate stocks for a while or do we set aside land; do we reduce the amount of land in production?

And that is a decision that is going to have to be made sometime in the future. It is a question that needs to be studied thoroughly, how much should we accumulate stocks rather than idle this land, how much stocks should we accumulate?

Senator JOHNSTON. It would seem to me if we would embark on a policy in this country to accumulate enough stock to take care of the situation we had from July through October, that abnormal demands caused by the droughts all over the world, we could accumulate enough stock for that, then we could assure our trading partners around the world that we can take care of them through the lean years and the fat years as well. And they in turn would not then be tempted to put on their own import controls because if we signal to them that last summer's export controls may be a recurring thing—and I think this is the clearest signal we could give to them, to enact this kind of legislation—then they are going to take care of supplying their own demands for their own domestic production, protect, I am sure, their imports.

Mr. TABOR. Senator, I must confess I have trouble with your line of reasoning. At the moment the world is grabbing every bit of wheat and soybean and everything else that we have. And if we are to stockpile, we will have to deny the world what they are demanding and that requires immediate imposition of controls to build a stockpile, which creates——

Senator JOHNSTON. I am not talking about stockpiling in time of shortage, but if we produce 1,600 million in soybeans this year, as opposed to 1,000,290,000 last year, I would hope that that could take care of some excess demands, if not this year, then perhaps next year.

Mr. TABOR. That is just the problem. I don't think that the world demand is going to recede. The world is, as you say, increasingly rich, thank God, but it is a different situation than we have had for all postwar years, and they have the dollars, they demand exports from us as the world's residual supplier of agriculture, of scrap, of cotton, all of these things, they are demanding.

I don't see us building a reserve in the next few years unless we tell our foreign customers that we are going to first of all put some controls on to build a reserve.

When we have built that reserve, then we will sell to you. That is not what we are advocating.

Mr. HINTON. Senator, it is very hard to be sure where we will be in 3 or 4 years from now. I think what Secretary Brunthaver has said and what I personally believe, the supply situation will be eased and we will be in a position where stock accumulation should be possible without either controls or without denying sales to the people who want it.

But I have a question for you, if that is permitted here.

Senator JOHNSTON. Sure.

Mr. HINTON. Would it not be better if we decide to build stocks against emergencies, droughts or policy changes that are wrong in some parts of the world, the kinds of contingencies, would it not be better to have some of the other rich countries share the burden for the stocks? Why should the exporter be the only country to build and carry stocks?

The importers might have an interest in this, too. I think you have suggested this.

As Secretary Tabor said, we have been the residual supplier of the world and we have been in circumstances where we could do it.

The world is very different now. There are other countries with considerable economic power and it would seem to me that if the case for stocks is made that that might be a common responsibility, or a shared responsibility.

Senator JOHNSTON. I would say it is primarily our responsibility because we are the ones that today make the profit from agricultural exports, and we stand to make a great deal more profit from it. So it would seem to me it is in our own private interests, not because we are good guys and want to take care of the world, but because we make enormous profits out of it.

I think it is as important to us as oil is to the Arabs, perhaps more so, to have this agricultural capacity.

I want to see it worked to its limit, and I think if it can, and I believe Mr. Brunthaver will say for Agriculture that we have got the capacity in this country to supply the world—don't you believe that?

Mr. BRUNTHAVER. Well, we have a tremendous capacity to produce.

Mr. HINTON. We have not really strained it yet, 60 million acres in set-aside.

Mr. BRUNTHAVER. There is no question, sir, but that stocks are necessary. Any production plant this large, you have to carry stocks, especially when production is as uncertain, because of drought, stocks are desirable.

I think the only question is who should be carrying those stocks. Is it the function of Government? Is it the function of the U.S. Government alone? Or is it the responsibility of farmers, trading firms of the Japanese, to carry some stocks to feed their own 100 million people?

I think that this is a major question that needs to be thought through.

Senator JOHNSON. I think my time is up. I would like to, since I am the chairman, if no one objects, I would like to put in the floor remarks I had.

Is there any objection?

[No response.]

[The document follows:]

REMARKS OF SENATOR J. BENNETT JOHNSTON, CONGRESSIONAL RECORD, THURSDAY SEPTEMBER 20, 1973

Mr. President, I have asked for a few minutes this morning to express my views on an issue that is emerging as one of the key issues of this session. We are hearing more and more about the need for export controls on agricultural commodities as a vehicle for confining the surging demand, and disturbing price rises, in these products.

The Administration has asked for increased authority to impose controls on agricultural exports. The Committee on Banking, Housing and Urban Affairs, of which I am a member, has held hearings on the proposed amendments to the Export Administration Act, but as yet the bill has not been reported out.

Only last Thursday, the Senator from New York (Mr. Javits) and the Senator from Illinois (Mr. Stevenson) introduced legislation to create an apparently permanent scheme for regulating exports of all American agricultural commodities.

It is easy to understand the impetus for this legislation. Food prices are rising faster than ever before. In a year of devastating inflation, food prices have led the way to a public attitude approaching an inflationary panic—the first I can recall in recent American history.

In August alone, farm product prices jumped 23 percent—the greatest one month increase since the Government began keeping price records in 1913. That 23 per cent increase was more than twice the eleven per cent increase in July of 1946, just after World War II.

In August alone, grain products rose 69.5 per cent to 166.9 per cent above a year ago; livestock prices were up 22.1 per cent in August, 64.3 per cent over a year ago; poultry 42.3 per cent in August and 52.5 over a year ago, and so on down the list of our agricultural mainstays.

At the same time, agricultural exports reached record levels. In a recent release, the Foreign Agricultural Service of the Department of Agriculture states proudly that "US farm exports rose an astonishing three-fifths to a record $12.9 billion in FY 1973." Exports to Japan, the Soviet Union, and Western Europe led the way.

Our total agricultural exports to Japan rose from $1.2 billion in FY 1972 to $2.3 billion in FY 1973—an increase of 97 per cent or practically double in a single year.

Exports to Western Europe increased by nearly half, from $3 billion to 4.5 billion.

And most dramatically—owing largely to the notorious wheat deal—agricultural exports to the Soviet Union increased nearly six times over the level of the previous year—from $150 million to $905 million. Wheat exports to the Soviet Union alone amounted to 345 million bushels worth $563 million, compared with a negligible total of only 100,000 bushels in FY 1972. Exports of soybeans to

Russia rose from zero in FY 1972 to 31 million bushels, worth $119 million, in FY 1973.

It is now generally accepted that this enormous growth in our agricultural exports was spurred on by two devaluations of the dollar. For example, the purchasing power of the yen increased by some 27 per cent in relation to the dollar during FY 1973.

If we put these two developments together—booming exports, rising prices—it seems clear that in FY 1973 growing foreign purchases of US agricultural products had a substantial effect on what the American consumer paid for food here at home. No observer of the agricultural scene, so far as I am aware, would dispute the existence of a causal relationship between these two phenomena. In a word, foreign buyers have bid up the price of American commodities.

It is by no means obvious, however, that the strong sedative of export controls is the proper medicine for last year's overheated agricultural price structure. Professor John Kenneth Galbraith, in opposing the Administration's request for additional power to impose export controls, has stated:

> There is an Alice-in-Wonderland aspect about a liberal feeling called upon to oppose this legislation. It should be opposed by every principled conservative in the country. And it should never have been proposed by a conservative Administration. It involves an interference with market forces at one of the precise points where these work to the advantage of the United States in particular and people in general.

I am not one who seeks to be labeled either a conservative or a liberal. I do not consistently agree, or disagree, with Professor Galbraith's analysis of our economic problems. In this instance, however, nothing could summarize my own feelings about agricultural export controls more succinctly than Professor Galbraith's words.

First, agricultural export controls, by dampening the farmer's incentives to increase investment and production, threaten to curtail supplies and increase, rather than depress, consumer prices.

Second, agricultural export controls would deprive the American farmer of the full realization of a long overdue period of prolonged prosperity.

Third, agricultural export controls would have a substantial adverse impact on our trade deficit, on the dollar, and on the prices consumers pay for imported and domestic goods of a non-agricultural kind.

Fourth, agricultural export controls would harm established trading relationships and undermine the thrust of our trade policy of at least a decade by politicizing foreign trade in agricultural commodities.

I. The basic point is that commodity supplies will be expanded most rapidly and most efficiently if foreign demand is permitted to have its full impact on the American market. Farming is typically characterized by high, fixed capital investments in land, buildings, and machinery. The variable costs—seeds, fertilizer and labor—required to increase production are much lower. As a result, expanding production to meet rising foreign demand promises to spread these high, fixed capital costs over more production, lowering per-unit costs. Increased volumes and lower per-unit costs mean more net farm income for producers and lower food costs for consumers—both here and abroad. The alternative—attempting to recover one's costs from fewer units of production—means higher prices, greater dependence upon taxpayers and less dynamism in rural America.

A similar economics applies to the system for handling, storing, transporting and processing farm products. Elevators, processing facilities, transportation facilities—all of these represent high initial fixed capital costs. Moving larger volumes through this marketing and distribution network means reduced per-unit costs. A secure and expanding agriculture would also attract the capital, management skills and innovations which would help to augment our efficiencies even further. These underlying economics—coupled with our natural advantages of land and climate—are the most powerful arguments one can have for seizing the opportunities of the present to continue to expand our marketing prospects.

II. We are seeing a long term trend toward increased world demand for more expensive foods, especially animal proteins, which require large multiples of feedgrains to produce. Demand is growing not only in the nations which stand out conspicuously in our agricultural export statistics, but also in a number of countries we do not customarily associate with rapid economic growth and rising prosperity. Spain, Mexico, Taiwan, Korea, Yugoslavia—these are among the nations whose hunger for meats and feedgrains have created a golden opportunity for the American farmer, and for the American economy as a whole. In a very real sense, our wheat and corn and soybeans have become as valuable on the world market as the oil of the Arab states—more valuable, perhaps, since if properly managed our capacity for agricultural production is inexhaustible.

For the American farmer, the growing world demand for food offers the first real chance to achieve economic prosperity equivalent to that experienced by other segments of our society in recent years. In the 1950s, the after-tax income of farm people averaged only 54 per cent as much as the average for non-farm people. In the 1960s, the after-tax income of farm people averaged only 67 per cent as much as the nonfarm average. Now, for the first time in many years, farmers are free to expand production under the new farm bill. Some 60 million acres will be released for production this year under the new legislation.

If past experience is any guide, there is every reason to think that the American farmer will—with the unique combination of favorable demand conditions and unrestricted production opportunities—be able to meet or surpass the growing demand for farm products. By 1973, even when the farms of our country were still under legislative wraps, feed grain production in the United States had increased 56% over 1963 levels, while food grain production rose 34% during the same period. Farm productivity per man has been increasing in recent years at a rate nearly twice that of manufacturing industries. I am told that in only two years, between 1970 and 1972, many corn farmers have been able to increase the per acre yield of that crop from 32 to 97 bushels.

Of course, the beneficial effects of the rising U.S. agricultural export trade are not confined to the farmer. More farm exports mean more business for American ports and American shipping, more jobs for Americans of all walks of life associated with the business of preparing and sending American agricultural commodities abroad.

III. Of even broader significance is the fact that our enormous international trade *deficit* in *non-agricultural* products is subsidized and offset by our substantial international trade *balance* in *agricultural* products. In FY 1973, the U.S. agricultural trade balance rose from $3.6 billion to a record $5.6 billion, despite a 20 per cent increase in our own agricultural imports to a record $7.3 billion. This favorable agricultural trade balance helped to offset the U.S. trade deficit in non-agricultural products, which amounted to 9.1 billion in FY 1973.

The balance of payments is not a technical game played solely by international economists. It is an issue of vital concern to every American consumer because the balance of payments affects the prices consumers pay for every item they purchase. And that is why I disagree with those who say that a free and expanding international trade in agricultural commodities is fine for the farmer but disastrous for the consumer.

Both the consumer's interest and that of the farmer are best served by permitting free trade in agricultural commodities in all but the most unusual circumstances.

If our balance of payments goes further in the red, we will face additional devaluations of the dollar caused by an excess of foreign purchasing power hanging over U.S. markets. If the dollar is revalued again, the price of every imported item will go up—from radios and cameras to steel to clothing to foreign cars. At the same time, U.S. products which are comparable will go up in price as they become cheaper to foreign buyers—thus bidding up the price of domestic consumer goods as well as foreign goods. In fact, it is precisely this kind of price action in agricultural commodities, resulting in part from two devaluations of the dollar within a year, that has produced the current concern about foreign demand.

It would be most unwise to respond to what appears to be a short term supply shortage in some agricultural commodities with an economic policy which promises only more of the same price inflation in other sectors of the economy where hope of increased production is not nearly so bright.

IV. Moreover, export controls destroy our international trading relationships. Export controls encourage other nations to close their markets to American products that we are very anxious to to export, and to close their markets to U.S. agricultural products in times of domestic surplus.

Last week, the *Washington Post* reported on the world trade negotiations now in progress in Japan. The *Post* quotes Mr. Eberle, the President's representative, as stating that our hastily imposed export controls on soybeans have allowed foreign nations to argue that the United States is no longer a dependa-

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ble supplier of food. Thus, the foreign nations argue, import restrictions are vital for those countries to protect their own farmers—even when they can't produce as cheaply as American farmers—in order to safeguard those foreign countries' supplies of food in the event that the export climate in the U.S. sours.

Finally, as the distinguished Senator from Kansas (Mr. Dole) has said, export controls are an administrative nightmare. Because an export control bureaucracy would supplant the present operation of the free market, decisions normally made predominantly on the basis of market price would be subject to considerations so cosmic in scope as to defy analysis. To paraphrase the Senator from Kansas:

—What level of commodity exports would it be prudent to authorize for this year?

—To which countries should such exports go and in what quantities?

—How much should farm prices in the United States be permitted to fall and who should be the beneficiaries of these drops in prices?

Above all, I fear that our foreign trade policies will be politicized, for inevitably administrative allocations of American commodity exports would have to be attuned to American foreign policy objectives—diplomatic and strategic objectives wholly unrelated to economic efficiency.

The entire thrust of our efforts in recent years has been to free world trade from these demoralizing constraints. Yet now, in the aftermath of a most atypical year for agricultural trade, we are ready to turn our backs on free trade.

I am then, firmly opposed to controls on the export of agricultural products as an ongoing instrument of economic policy.

To some, the expedient of export controls may seem attractive. In the short run export controls unquestionably will stifle demand and help to hold down prices. But in the long run, controls will undermine the incentive and the productivity potential of the American farmer. Indeed, to impose controls today would destroy the farmer's incentive to meet present market conditions without ever having given the farmer a fair chance to respond to those market forces.

In the long run, export controls would close important markets to American goods, compound the balance of payments problem, devalue the dollar, and increase the price of thousands of products—including food products—to the American consumer.

This does not mean that I favor a complete hands-off policy when it comes to agricultural exports. The Department of Agriculture did not adequately monitor the Russian grain deal and the results were disastrous. Speculation and market-cornering activities must be closely regulated, and I believe the Administration has taken desirable steps in that direction by its new reporting requirements, which require all exporters to report on a weekly basis by country and month of shipment all exports and sales for exports of certain grains, oilseeds, and primary products of oilseeds.

American sellers must be fully informed of the market activities of foreign buyers. But sensible regulation need not result in closing off the gates of American agriculture to the rest of the world.

Unquestionably, there will be times when domestic supplies are threatened, as they were by the unusual market conditions of this past year. In such times, there will be need for short-range export controls. But controls in those circumstances—should be imposed only after consultation with our trading partners and only when it is perfectly clear that controls are absolutely necessary.

Senator JOHNSTON. Senator Brock?

Senator BROCK. I have listened with a great deal of interest. I have discussed this matter with some of the individuals here today. I can't help but express a certain sense of dismay with the whole presentation.

I have a great deal of respect for the individuals here today, and for their respective bosses, the Secretaries of Agriculture and Commerce, but, gentlemen, I can't help remembering a little history. Back in the 1930's we wanted to help the cotton farmers of this country, so we laid a pretty good program on them of cotton support prices, and what we did in effect was to dry up our sales of cotton overseas. We forced the world to start producing its own cotton. All of a sudden when we realized it, it was too late. They had begun to plant enough cotton to satisfy their own needs, the only way we could compete in the world market was by adding another control or subsidy. That was subsidizing the exporter and that meant we began to subsidize international textile production. So the Japanese, Germans, and Italians started making shirts, pants, and socks; and all of a sudden our textile mills got into trouble, so we had to lay a subsidy in the textile mills.

Controls beget controls. The reason we have a problem in this country today is because if a farmer or a trader can't sell his soybeans at a decent price in the market under our price controls, he sells it for export at a better price, that is all.

And to say we are going to solve that problem by laying another control on the economy rather than removing the original problem, doesn't make sense to me. I simply can't seem to grasp the logic of it.

I do understand, Mr. Tabor, Mr. Secretary, your desire to be able to predict these things and manage the problem far more efficiently than we did with the soybean embargo, which was ridiculous. But I just can't believe there isn't a better way of going about it.

You have already instituted export licensing procedures.

Mr. TABOR. And monitoring, which is giving us a great deal more information, which enables us to anticipate and be more prudent in operation.

Senator BROCK. Right; but as you and Mr. McLane know, I am opposed to the whole control program, and I think you would like to get rid of it too. But I am opposed to it as of yesterday. I wonder if the best step to take is to turn these people loose and let them produce.

I did have one question in that regard for the Department of Agriculture that is rather technical. Are your crop yields not a little optimistic, when in every single instance you indicate a rather large yield estimate for next year? In only one case do you not estimate a record yield, if I understand the figures correctly.

When you take set-aside acreage, if you are a farmer, and have to set aside 20 percent of your land, you are not going to set aside 20 percent of your bottom land. You are going to take that scraggly land up on the ridge, with all of the rocks in it. We have a few of those in Tennessee.

I wonder how you can justify saying that you are going to plant all of your set-aside acreage and at the same time increase your yield? That to me looks a little bit optimistic.

Mr. BRUNTHAVER. It may be tricky.

Mr. TABOR. Good fertilizer.

Senator BROCK. We will come to fertilizer in a minute.

Mr. BRUNTHAVER. Let's remember that the only projection we are doing here is 1974–75. The 1973 crop is the September estimate.

Senator BROCK. I know that. But your projection is on yields for 1974–75.

Mr. BRUNTHAVER. Right; on wheat the 32.6 is actually below the 1972 yield. And it is 1$\frac{3}{10}$ bushels below the 1971 yield. So it is a reasonable sort of thing.

The corn at 97, we have already gotten to 97 in 1972, admittedly with very good weather in 1972——

Senator BROCK. It was a very fine year.

Mr. BRUNTHAVER. Yes; but we do have technology continuing to work on corn, with narrow roads, higher plant population, all of these factors. Barley is a record. Soybeans at 29——

Senator BROCK. That is a record. One of the frustrations with soybeans is you don't have that much new technology available for increases.

Mr. BRUNTHAVER. I think part of our thinking here is that at $6 soybeans, the farmers will use a little extra care and technology and do some things that they may not have done at $2 or $3.

Senator BROCK. The reverse psychology could apply. They are making so much money now they don't need the fertilizer. If these figures hold.

Mr. BRUNTHAVER. I don't think the farmer traditionally operates in that way. If there is a good price, and good opportunity, I think he will farm very aggressively.

Senator BROCK. Well, I raised the point not to spend any time on it. I am just a little curious about the fact that you have all of these increased yields and you are using land that I don't think is going to be quite as good as what you have today.

Let me take you to another point, particularly with reference to the fertilizer that you mentioned. I don't believe anybody has mentioned controls on fertilizer, but we do have a short supply.

Mr. TABOR. There is pressure, Senator, for controls on fertilizer for the reasons that you have pointed out. And it would be, I think, quite unsatisfactory if all the fertilizer went abroad.

Senator BROCK. But isn't the problem with regard to fertilizer the fact that they can sell it at a higher price abroad than they can domestically because of our price control program?

Mr. TABOR. I think you put your finger right on it.

Senator BROCK. So wouldn't the alternative policy be to remove the price controls on it?

Mr. TABOR. That is certainly one option.

Mr. MCLANE. I knew that the Senator would come around to this point. A couple of things on that.

There is no question but that exports of fertilizer have increased this year. There are several factors, though, that relate to the options that we are considering. In fact I would like to enter into the record the testimony of one of my staff who testified before the Subcommittee of the Department of Operations on the Housing and Agricultural Committee on the fertilizer issue.

If it is all right with the chairman, we will enter this into the record here.

[The statement follows:]

STATEMENT OF J. DAWSON AHALT, DEPUTY ASSOCIATE DIRECTOR FOR ECONOMIC POLICY, COST OF LIVING COUNCIL, BEFORE HOUSE AGRICULTURAL COMMITTEE

Mr. Ahalt. I am pleased to have this opportunity to discuss with you some basic facts concerning the fertilizer situation and to review the major factors the Cost of Living Council needs to explore in taking any action in the fertilizer industry. As I am sure you are aware, the Fertilizer Institute on September 5 petitioned the Council for an exemption from price controls for the entire fertilizer industry. In response to this request, the Council asked the Economic Research Service of the U.S. Department of Agricultural to prepare a detailed analysis of the fertilizer situation. This study has now been prepared for the Council and my testimony draws on report. In addition the Council staff has collected extensive information and has devoted considerable analysis to the problems in the fertilizer industry.

The Cost of Living Council recognizes that under certain circumstances higher prices can have positive effects on supplies. But because of the complex nature and interrelationships that exist in markets, other factors need to be taken into consideration. These are (1) higher prices may discourage some exports, but they may also lead to the development of higher prices abroad; (2) higher prices may divert some additional resources into fertilizer production channels, and as a result lead to additional price increases elsewhere; (3) higher prices may generate some additional productive capacity, but this is a long process. Therefore, it is necessary for us at the Cost of Living Council to seek a delicate balance between price increases to encourage adequate supplies of fertilizer for farmers' needs in the short run while at the same time avoiding significant upward price pressures in agriculture as well as other sectors of the economy. This situation is further complicated by the fact that other industries face similar problems and see no reason why they shouldn't be decontrolled. Now, let me make some comments about the supply situation, as we understand it.

Production of fertilizer in the United States in 1973 totaled 43 million tons and sales amounted to over $3 billion according to industry sources. This compares with an output in 1960 of nearly 25 million tons, or an increase of more than 70 percent. This dramatic expansion demonstrates the importance that fertilized has played as a major farm production input.

During the latter part of the 1960's, considerable excess capacity developed in the fertilizer industry. Prices for fertilizer materials softened, and a substantial number of plants became unprofitable and were forced to close. The results of less efficient plants dropping out of production, coupled with growing demand for fertilizer materials, led to some tightening in the supply-demand balance beginning in 1971. Since 1971, the situation for nitrogen and phosphates has firmed considerably and the industry now finds itself in a situation where prices are rising.

NITROGEN

Now, let's look at nitrogen. Despite the claims by some that the controls program discourages an expansion in productive capacity, the primary limitation on expanding nitrogen production in fiscal year 1974 does not appear to result from the rules or regulations of the Economic Stabilization Program. During 1972/73 anhydrous ammonia plants (the major source of nitrogen) operated at 86 percent of capacity. USDA estimates that operating rates for nitrogen production could rise to 90 percent in 1973/74. However, as pointed out in the USDA report prepared for the Council, potential curtailments in the supply of natural gas to ammonia producers would significantly reduce nitrogen production this season. In the U.S. virtually all ammonia is produced with natural gas. Because of lower prices for these users, a substantial number of ammonia producers have contracts with gas suppliers that have "interruptible" clauses. This means that if higher priority users, for example consumers, needs are not met, gas supplies can be temporarily halted to firms who have these clauses. During the past three years interruptions have been increasing, and natural gas suppliers have warned ammonia producers to expect curtailments again this winter. Thus, even if fertilizer prices were to be decontrolled it is unlikely that more natural gas could be diverted to ammonia producers.

Taking these production restraints into consideration, USDA estimates nitrogen output could expand by 8 percent in 1973/74, but given the domestic and foreign demand, supplies could run as much as a million tons below requirements for the current season. This problem is compounded by the fact that anhydrous ammonia stocks are down to normal levels compared to the unusually large inventory at the beginning of last season.

PHOSPHATES

The phosphate situation does not appear as tight as in the case of nitrogen. By assuming that phosphate plants can operate at 90 percent of capacity, USDA estimates that domestic requirements will be met in the coming season, although they expect export demand may not be satisfied. There are some idle phosphate plants that could be activated, as they were temporarily during the past season. It is conceivable that some upward price adjustments for phosphate fertilizers could permit profitable operation of these less efficient plants. We understand that these plants are primarily plants that are able to produce normal super phosphate fertilizer materials.

POTASH

Potash supplies continue to be more than ample to meet the demand. The potash industry, unlike the nitrogen and phosphate industries, continues to have considerable excess capacity rather than shortages of product.

EXPORT DEMAND

Growing out of the substantial rise in world prices for grains and the impact of devaluation, the USDA report estimates that exports of nitrogen will total 1.7 million short tons in 1973/74 out of a total supply of 10.8 million tons, an increase of 26 percent over the previous year. Phosphate exports are expected to also climb to 1.7 million tons, out of a total available supply of 6.9 million tons, up one-fifth from the previous season's shipments.

This surge in foreign demand is evident from the performance so far in calendar 1973 when exports of amonium phosphates rose 34 percent from the same period in 1972, and exports of anhydrous ammonia were up 54 percent from the corresponding period a year ago.

In the late 1960's domestic prices averaged above world levels. But beginning in 1971 as world demand for ammonia strengthened and AID shipments picked up, world prices moved above domestic levels. With the strong world demand continuing this season, the gap between domestic and foreign prices has widened significantly. This is shown in Table 3. Still, exports make up only a relatively small proportion of the market for fertilizer. For example, in 1962/73 they absorbed only 13 percent of the available supply of nitrogen and 22 percent of the available supply of phosphates. Accordingly, if the estimated domestic shortfall is to be fully eliminated by diversion of exports, shipments abroad will have to be curtailed dramatically.

DOMESTIC DEMAND

By far the major share of domestic fertilizer demand is attributed to farm use with nonfarm use. Residential and recreational uses, etc., account for only an estimated 15 percent of domestic demand.

Best available estimates show that eliminating set-aside restrictions in the coming season will tack on an added 10–12 million acres onto next season's plantings. Assuming normal expansion in industrial demand, the increased acreage next year will contribute to an increase in domestic demand for nitrogen of about 26 percent and phosphate by about 19 percent as estimated by the Department of Agriculture.

Some argue that the Economic Stabilization Program, by holding the line on domestic fertilizer prices, is not allowing domestic users to effectively compete for fertilizer supplies. Crop prices are now running about 66 percent higher than a year ago and farmers are in a good position to absorb higher fertilizer costs.

In addition to the economic fact that higher prices for this year's crops are expected to encourage expanded usage of fertilizers, the soil also demands a certain replacement level of nitrogen each year. However, soil scientists tell us phosphates tend to build up in the soil and applications can be reduced in the short-run without materially damaging crop yields.

In the case of wheat, there have been reports that some suppliers may be holding fertilizer deliveries pending action that might be taken by the Cost of Living Council. Even if controls were to be removed today, alleged increases in availability of supplies would not occur in time to benefit wheat growers. Winter wheat plantings are now between a third and 50 percent complete, though running somewhat behind normal due to wet weather in some areas. It is estimated, however, that seedings will be completed within the next few weeks. It is important to note also that not all wheat acreage receives fertilizer. This depends to some extent on the moisture situation.

Last year, 37 percent of the wheat acreage went without fertilizer. Indeed, the heaviest use of fertilizer is on corn where virtually all of the acreage is fertilized at spring planting time.

Fertilizer shipments for spring plantings will begin to move sometime during the February-early March period. In the meantime, some wheat farmers will be top dressing, that is applying liquid fertilizer to seedlings already in the ground, Indications are that supplies are probably adequate for these needs. Thus, the impact of controls on fertilizer supplies needs to be evaluated in terms of the potential effects on the crops that will be planted next spring.

PRICES

As a result of the excess capacity that existed in the fertilizer industry during the late 1960's, and plentiful supplies of basic inputs such as natural gas, prices paid by farmers for fertilizer in 1972 averaged only 3.9 percent above the 1960 level. However, markets continued to tighten in 1972 and early 1973. As a result, farmers last spring paid 10 percent more for nitrogen materials than in the previous season.

Thus far in Phase IV, only a few companies have prenotified Cost of Living Council for price increases. It is anticipated, however, that other companies will follow suit. Even if the industry implements higher prices consistent with the rules of phase IV,—and here I should say they are permitted to increase their prices if they have allowable cost increases. The rules permit firms to pass on price increases arising from higher costs as long as the resulting price increase does not raise their net profit margin over that which existed in the base period—the higher prices farmers received for the 1973 crops will stimulate increased demand for fertilizer.

IMPLICATIONS OF REMOVING CONTROLS

While on the one hand, elimination of price controls would serve to reduce the differential between domestic and foreign prices and provide incentives for attracting capital necessary for expanding capacity, the issue of exemption raises significant problems with respect to the overall objectives of domestic price stability. Some of these problems are:

A substantial portion of 1973/74 export sales are already contracted and we have heard estimates ranging from 50 to 90 percent. Therefore, removing controls would probably not make much more fertilizer available for farmers during the coming season.

To the extent that supplies are not tied up in contracts, prices would rise sharply. The USDA report, prepared for the Council, estimates that wholesale prices would rise by as much as 50 percent and at retail the increase could be in the 30–35 percent range if fertilizer prices were entirely removed from controls.

Removal of controls at this point in time would not increase the amount of fertilizer available for wheat growers. Between a third and one-half of this season's crop is already seeded. The critical period is next spring.

Fertilizer output response to price changes is relatively slow. It is estimated that it takes three years partly because of anti-pollution requirements, and a minimum of $30 million to build a new plant, and up to $80–$100 million to build a really efficient facility. Higher prices might bring some less efficient phosphate plants back into production, but the primary restraint on ammonia production is the availability of natural gas. Manufacturers of explosives which use somewhere between 10 and 20 percent of anhydrous ammonia and ammonia nitrate supplies, have already cautioned the Cost of Living Council against removing controls on fertilizer. They point out that exempting fertilizer would pull ammonia supplies away from the production of explosives which is essential to the coal and other mining industries.

The Council cannot consider decontrolling fertilizer prices without evaluating the impact of removing controls on wages in the fertilizer industry, and the potential effects of such action on the stabilization of wages of workers in other segments of the chemical industry.

Finally the removal of controls for fertilizer industry will generate considerable demands for equal treatment from other industries with similar problems. The results of such developments could potentially jeopardize the Cost of Living Council's objective to materially reduce the rate of inflation and to systematically decontrol major sectors of the economy in a manner that will not be accompanied by a large surge in prices.

EXPORT CONTROLS

Now I would like to make a comment on export controls. There has been discussion in some segments of the industry about the possible needs for export controls on fertilizer. As you know the Administration has requested the Congress for additional flexibility in administering export controls. Representatives from the Cost of Living council, the Department of Agriculture and the Department of Commerce are testifying at this very hour before the Senate Banking Committee on this topic. As you know, the Administration does not favor export controls as a permanent policy. As the President indicated in his July 18, 1973, statement—

"To a considerable degree, export controls are self-defeating as an anti-inflation measure. Limiting our exports reduces our foreign earnings, depresses the value of the dollar and increases the cost of things we import, which also enter into the costs of living of the American family."

In that statement the President was referring to our policy on export controls with respect to the agricultural products, but an analogy can be extended to inputs such as fertilizer used in food production. Moreover, there is the question of imports because the United States does import some quantities of fertilizer materials each year.

Thus, unless it appears that foreign demand is much greater than our expectations, it would not appear to be a wise course of action to impose export controls on shipments of fertilizer. Only under the most severe circumstances should this course of action be taken.

In summary, I have attempted to present a brief description of the facts and circumstances as we see them surrounding the present fertilizer situation. It is clear that the supply for balance for 1973/74 is extremely tight. It is not so clear, however, that the complete removal of controls on this important industry will work to the best interests of all parties involved. There are a number of crucial policy implications associated with this issue that must be worked out. The Cost of Living Council is in the process of deliberating on these matters, and expects to reach a decision shortly.

Mr. McLane. Unfortunately it is not just the price that is causing the problem. In the case of copper scrap where the problem was simple, we did exempt copper scrap from controls and allowed prices to go to the world market level. However, we have here a basic resource, natural gas, that is restricting our ability to expand fertilizer output. I think the natural gas problem is familiar to you in terms of the problems we are having.

Because of those problems you are not getting the inputs needed in order to make nitrogen fertilizers. Thus we need to strike a delicate balance between available supplies and domestic prices. Even if prices are allowed to increase we have no assurance of expanded supplies in the short run.

The Economic Research Service of the Department of Agriculture has just this week provided us with a detailed report, at least on their outlook on the fertilizer situation, and we are continuing to address this problem.

Senator Brock. You really raise the point that I use in addressing people. I have a great respect for you and for the people you work with down there.

But I do not think any of us are able to ascertain all of the interrelationships of our various productive segments of this economy. Every time we do something that affects somebody else, we do not hear about it for 2 or 3 or 4 weeks and then it is too late to do anything about it. It is like when you talk about soybean consumption, you can use a substitute for these high protein feeds, if you use enough urea, as you know, but if we cannot get the urea because of some other policies, we are running in a circle.

I do not know that you will ever catch the tail of the dog.

Mr. McLane. It is clear that we are trying to take steps that, on the one hand try to restrain prices, and on the other do it in the way that does not inhibit capacity growth or supply expansion. Obviously, it is through expansion of supply and expansion that we are going to correct longer run inflation problem.

Senator Brock. Absolutely.

Mr. Tabor. I would only suggest also that in addition to the control mechanism on prices, which you have justified concern about, we have in the matter confronting the committee at this time the other factors which are operating such as weather, such as governmental actions abroad to prohibit the export of their products, which makes the American residual market more and more under demand. You have the currency activities of many countries at this time affecting the attractiveness of American products at American prices. It is against all of these very complicated interworking activities, in addition to the price control structure and the Cost of Living Council, that we seek here for the President and the Administration the more flexible finer tuned ability to move if we have to on a standby basis.

Senator Brock. Mr. Secretary, I think I told you, when you were gracious enough to give us some of your time in my office, that I have a huge regard for you and for the people who are implementing the policies today. I think you would exercise this power with caution and discretion.

But I don't have confidence at all in the next person who will fill that job, because I do not know who he will be. I am worried about the precedents we are establishing here. And that it really what I am bothered by. When you say that we are going to let inflation determine our farm price policies, our export policies, you are saying, in effect, that we are going to make the farmer subsidize the consumer of this country. That is all. You are saying to the farmer you cannot sell your produce at market price. When you have shortages in there, that is one thing, that is protecting the collective stomach of this country. But when you go beyond that and say "just inflation" and determine a policy of export, then you are telling the American farmer, you are going to subsidize the American consumer if we have too much infraction in your segments of the economy, because we are not going to let you sell at market, we are going to make you sell at our established price in this country, you cannot sell it overseas.

That is why we are in the mess we are in now. We have had a farm policy for the last 30 years that has driven the farmer off the farm, because it has kept him in a position where he has been subsidizing the American consumer. We have been subsidizing him at a level of economic serfdom, almost; consequently we have driven all of their children off the farm, so you do not have as many farmers.

We wonder why we have shortages. Well, it was perfectly predictable with all the farm policies we have had in the last 20 years that we would get shortages, because we designed the policies to knock the surplus off. Now we turn around and tell the farmer

OK, you finally got out of the woods. You are finally getting a chance to get a fair share in the market. We are going to tell you. "No, you cannot do it any

more. We let you have 1 good year, but we are going to give you 7 lean ones back to back again if your prices are not low enough to where you have trouble making it and the housewife is not going to complain."

That is what bothers me about it:

Senator STEVENSON. The House-passed bill, Mr. Tabor, establishes two conditions: one is scarcity; and the other is inflationary impact, coupled with abnormal foreign demand. What objections do you have to that language and the standards established in the House-passed bill?

Mr. TABOR. Senator, we call that the Ashley bill. I think it is now before your body as S. — I am not sure of the number. It has certain advantages. It eliminates the bar against the Secretary of Agriculture approving controls where supply exceeds requirement, that is, until there is actual scarcity. It, as you point out, offers two grounds, on an and/or basis, either of these grounds offers the basis for imposition of controls, a shortage or inflation caused by abnormal foreign demand. The shortcomings, Senator, are first of all that abnormal foreign demand is somewhat administratively and legally difficult to determine. There are questions with all of these words. Causation may be difficult to demonstrate in some situations. Yet, the only inflation which would justify the use of controls would be that inflation which is caused by abnormal foreign demands, all of those words are in there together.

So that substantively, I think if there were some events which could predictably create, but which had not created this inflation, the Ashley bill would not allow imposition of controls, whereas S. 2053 would.

I think that it is not the only difference between the Ashley bill and our bill. The Ashley bill has some other provisions that are, I think, bothersome. The so-called Cotter amendments, and also there is one provision, Senator, that I think, if enacted, would make it impossible for us to allocate quotas as we have in the past. It would amend section 5(c) to say that export licenses may not be transferred or assigned. They must be allocated on a nondiscriminatory basis and "all those wishing to export shall have equal rights to obtain such an export permit."

The latter provision would preclude us from adopting a licensing system based on the exporters' prior export history.

Senator STEVENSON. It is apparently intended to prohibit discrimination among exporters. I do not understand what administrative difficulties there would be.

Mr. TABOR. Where we have imposed any kind of licensing limits, in soybeans for instance, we normally have gone back to some relationship to the exporter's prior history.

So we have dealt equitably with all of those people. You may wish to allocate according to country, according to the exporter's prior history. We have no difficulty with that portion of the language which requires us to establish a system of licensing which is fair and equitable. However, I do not quite understand how you can treat somebody who has never exported and who has no pattern of export as equally entitled to participate. The only way you could achieve that goal would be through an auction system, and under certain circumstances, this might not be the fairest method of allocation.

Mr. HINTON. I think, in part, Senator, the problem is, if you have a control system, allocation system, by definition you have to discriminate. It is highly unfortunate. That is why we prefer the market system. Let the marketplace make the decision. Once you start to divide a small pie up, it is pretty hard to see how you do this exactly with equality for everybody.

Senator STEVENSON. Does a country-by-country allocation system require arbitrary allocations among exporters? Is that a problem?

Mr. TABOR. No, but that would not necessarily be the fairest system of allocation in all situations. For example, under our limitations on scrap, ferrous scrap announced today, there will be 75,000 tons allocated between two countries. These are Canada and Mexico. We will allocate amounts there, 15,000 and 60,000, and we go back to look at the history of exporters and how much they exported to each of those countries, and try to divide up this quota on the basis of their prior export history. But with respect to exports to other countries we continue to license on the basis of orders accepted on or before July 1.

Senator STEVENSON. Does that language prevent you from adopting an effective country-by-country allocation program?

Mr. TABOR. No.

Senator STEVENSON. That language won't? The language you read?

Mr. TABOR. I think it would be impossible to administer, would it not?

Mr. HULL. Yes, Senator. Because, if you read literally:

> * * * and that all those wishing to export shall have equal rights to obtain such an export permit * * *

that means those who have had no prior history in exporting could come to the Department and say, "I want to export."

Senator STEVENSON. And irrespective of where he intends to export.

Mr. HULL. That is correct. He might not even have an order then at that point. If you set up country quotas, you have set up an overall ceiling for that country, but within that overall ceiling, you still have to make a determination of who is going to get a share of that overall ceiling. That is the allocation among the exporters.

Senator STEVENSON. I think that point is very well taken.

Now, getting back to one of your other reservations, the word "abnormal," I am inclined to agree with you, too, abnormal foreign demand is going to be normal for a long time and anybody who has traveled in this world, who had met with the FAO people and seen the effect of devaluation of the dollar, the changing patterns of human consumption, more and more protein being consumed, and the political situations which are facing some other exporting countries like Argentina, Australia, has got to come to that conclusion that we are going to be faced for a long time with allocating scarce commodities, including food.

I do not know what "abnormal" means. But I think it is going to be normal.

Mr. TABOR. That is our problem.

Senator STEVENSON. Would your concerns about the House language be relieved if we deleted that word "abnormal," and then you have two tests, scarcity and the inflationary impacts of foreign demands.

Mr. TABOR. Senator, that has a certain appeal, to eliminate the administrative ambiguity. It does, of course, in the Export Control Act, ease some of the difficulty in establishing the causal connection required between the inflation and the foreign demand. So that it has a certain logic and validity. That does not give the administration the full amount of flexibility that S. 2053 does provide and we would prefer S. 2053, just to give us, I think, the additional authority to deal with a situation—and this is the one I visualize—where events occur which could predictably create but have not yet caused inflation.

I do not think that the Ashley bill would go that far. S. 2053 would. And we would like to have the additional grant of authority from the Congress and the people.

Senator STEVENSON. The administration's proposal includes three tests: serious domestic inflation; excessive drain of scarce materials; or serious inflationary impact resulting from abnormal foreign demands.

What does three add to one? Doesn't your first test, serious domestic inflation, comprehend everything and more that is comprehended by three?

Mr. TABOR. I would agree with that.

Senator STEVENSON. So you would be perfectly satisfied to just eliminate three, it adds nothing to your authorization?

Mr. TABOR. That would be a very broad grant.

Senator STEVENSON. Let me ask you what the meaning of "serious domestic inflation" is. In August, the wholesale food prices went up close to 20 percent, retail prices by 7.7 percent. Isn't that serious domestic inflation?

Mr. TABOR. I think, Senator, this is obviously a very difficult judgment to make: It involves all of the things that Senator Johnston and Mr. McLane were discussing. I don't think that we can do more than to say to Congress would be giving us a benchmark, we would do our best responsibly to perform according to that benchmark, based on all the facts and circumstances. The action that to me most persuasively demonstrates the responsible attitude of the administration toward export controls, is that after imposing controls on agricultural products, contrary to all Government experience, we have taken them off. And as of October 1, there will be no controls on agriculture and there is only one control in the entire nonagricultural scene, namely, on ferrous scrap.

So, I think we have tried administratively to act very carefully under a Presidential policy that rejects export controls, and is committed to expansion of trade. We have tried to determine what inflation is in a most conservative way for the purposes of this act.

Senator STEVENSON. I'm simply pointing out that under the tests we have discussed, including the House bill itself, certainly the administration tests, the administration would have the authority to oppose export controls on most of the agricultural commodities we talked about right now. I am not saying that is wrong. In fact, I am inclined to agree the administration should have that authority.

Mr. TABOR. Senator, I think the present act——

Senator STEVENSON. You aren't saying that food inflation is not serious, are you?

Mr. TABOR. Well, the present act requires that there be a shortage.

Senator STEVENSON. The present act. I'm talking about your proposal.

Mr. TABOR. S. 2053; that would be fine. That bill, we can work with. I may have misunderstood the point here.

Senator STEVENSON. The point is, there is serious domestic food inflation right now.

Mr. TABOR. Yes; and it would authorize us to act, we would have standby authority, then we would have to balance the foreign policy and the other aspects.

Senator STEVENSON. Assuming you have that authority, how would it be exercised? Country by country? And if so, how do we allocate among the developing and poor nations of the world and those with which we have not had long commercial relationships?

Mr. TABOR. I will let Deane Hinton, who deals with the foreign policy aspects discuss that.

Mr. HINTON. I would like to say a couple of things if I could. First of all, I think the crucial words, as I see it, are the "ors" in this, and this goes in part to the developing countries' allocation. Under the present law, one of the highly unfortunate things is that we had no choice when we made the decision on export controls on soybeans and other related commodities, we could no longer continue Public Law 480, title II donation programs. We had to cut off those commodities from the American volunteer organizations which distribute them around the world during that period.

So that "or," which would put is in a position to be able to use export controls and the flexibility and restraints that the Secretary has emphasized, is a very important "or." We can have Presidential commitments, as well as congressionl commitments to keep a program running. It doesn't involve very large amounts of commodities.

And that had been stopped temporarily.

Senator STEVENSON. I'm not arguing the necessity of "or." I'm asking you what you will do with the "or."

Mr. HINTON. The question of how it would work, once you take that step into what is the mechanism for a controls system, you are in an extremely difficult area, you have a series of very important choices. Now, in the circumstances in July, we cut across contracts. I think everyone at this table would hope we never had to do that again.

We would like in the first step, if we had to do this, to have a licensing program and issue licenses 100 percent and watch what was going on. If we go to the international requirements of the GATT and try to play by the rules of the game—we would like to—the requirement is no discrimination among the recipient countries, and the only way in historical terms that one has been able to come close to this requirement is to take shares on a historical basis, country shares.

As Secretary Brunthaver said earlier, once you have decided that, you take a base period, and you have an argument, so what is the base period, is it the last year, 3 years, a running average, was there something abnormal where the 1972 year had enormous changes in wheat exports, for example, from previous years, because of the Soviet purchases?

But you get a base period, and you allocate on that basis. You still have the problem of what do you do with the individual trading companies, the individual exporter.

So this is an extraordinarily complicated administrative business. And all of us who have been in it, wish we never had been. But fundamentally to answer your question, we would try to get the most equitable distribution by the American traders, and we would try to have a country, probably a country allocation program.

Now, there are other proposals. I understand you have one, which is an auction proposal. But any one proposal, each and every one, there are many ones theoretically, each and every one of those proposals has disadvantages as well as advantages. But I think we would like to stay as close as we can to equity for the American farmers and traders and as close as we can to equity for our traditional customers around the world.

Senator STEVENSON. That is the trouble we have, you are asking for a great deal of authority, and we just don't know how that authority will be used. I recognize it is an extremely difficult job. I myself don't know what the answer is. I have come up with a bill, as you mentioned, that attempts to set up a new system for making country by country allocations, with an auction procedure built in and the economic benefits of that auction procedure going back to the benefits of the farmer.

I would hope that provision which Senator Javits and I introduced, that bill, would be studied. At a future date, we will have more hearings, and we would welcome the benefits of your opinions about that approach. This export administration act we are considering now expires on June 30. Whatever we do will only go through June 30. So we will, some time before June 30, have to take the whole subject up again, at which time I hope you can focus more attention on new approaches, including that suggested by Senator Javits and myself.

Mr. HINTON. I can assure you, sir, we will study it. I might make one additional comment, from my own limited experience. Every one of these commodity situations turns out to be not only complicated, but different from every other one. There are some patterns, but they are all different. And one of the things that I think justifies the administration seeking flexibility is that what may work or not work in one situation may be totally inapplicable to another.

I would apply this to an auction system. I think you can make a theoretical argument that an auction system is perhaps the fairest, closer to a market situation. But one can also imagine that if you have legislated that this is to be the system, that there are all kinds of contingencies neither you or I or anyone can imagine.

Senator STEVENSON. In that bill, we make major allowances for all sorts of contingencies, including an exception from the auction procedure. It is flexible, but it is a new concept, a new system. Let me ask about two other questions.

To what extent is the demand in the world for food elastic? That is to say, if the dollar were valued upward 10 percent, would the foreign demand for food, barring other factors, be increased by 10 percent?

Mr. BRUNTHAVER. We don't have good measures of elasticity. Our thinking about elasticity has changed. We think in certain classes of food, especially meat, it is probably more elastic than many of us had thought. I think this recent beef experience indicates that we have to rethink our thoughts on it.

But what we are faced with around the world, as you have indicated, 80 million or more people every year, but more importantly, these people have 3, 4, 5 percent more real income every year, and at the stage of development, at the stage of economic activity that they are in, that little bit additional income, a large part of it goes to food, goes to a higher quality food. They like to move from rice to poultry, so its elasticities in various countries differ.

Mr. TABOR. Certainly, Senator, as the world grows richer, and I think we can all be heartened that the world is growing richer, more and more people will claim that right through the money that they have earned in their expanding societies to get off a bread or rice diet and get onto a protein diet. That has been one of the great things——

Senator STEVENSON. Meat is not an efficient means of consuming protein, would you agree with that?

Mr. TABOR. You say meat is inefficient? I'm not up on that, but I have read some articles.

Senator STEVENSON. There is no question about that, it is a much more inefficient way of consuming protein than grains. The question of fertilizer was raised. I have tried repeatedly to persuade the Cost of Living Council to permit some adjustments in fertilizer pricing, to help it come to the world market levels.

So far, it has been without success. The fertilizers are going out to meet the world price. We are faced with serious shortages, not only of anhydrous ammonia, but with other fertilizers. Fertilizers are of course essential to our agricultural production, including our supply of commodities available to export.

Is the administration considering this, or what are you going to do about fertilizer?

Mr. TABOR. I would like to have Mr. McLane speak to that. He is very much involved in it. He is up to his ankles in fertilizer.

Mr. MCLANE. Senator, your requests have not fallen on deaf ears. We are addressing this problem immediately. We did specifically ask, as I indicated earlier, the Economic Research Service to give us their best insights into the problem. We have just received their report. Moreover we are addressing the whole question of changes in the price control mechanism relating to fertilizer as well as other possible actions that might enhance the fertilizer supply situation.

There are a couple of points that should be made, just so you understand the ramifications of what we are looking at. As you know, the Fertilizer Institute is before the Cost of Living Council with an exemption request which would essentially take fertilizer manufacturers out of price controls all together. But no matter what action we take now, a substantial amount of the 1973–74 fertilizer production is already contracted. I guess somewhere in the range of 50 to 90 percent. That amount is gone, essentially, no matter what is done.

Second, we recognize that an exemption would take the lid off prices domestically, and there would be a substantial increase in fertilizer prices. With the income that the farmers enjoyed over the past year they are probably willing to pay higher prices for fertilizer.

Third, no matter what we do on the price side, to increase the amount of fertilizer that is available domestically, it probably will have very little effect in terms of increasing the total supply of fertilizer available. This is because of the natural gas problem, the basic material input problem. You are very familiar with the scenario.

So, we are addressing the problem and will promptly make a decision.

Senator STEVENSON. If the administration doesn't address it soon, either through price relief or through export controls, I'm going to introduce legislation that will address the problem. By that, I mean export control legislation. I don't need to tell you it is critical. It will get worse before it gets better unless some action is taken.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you very much, gentlemen.

We will continue the hearings at 2 p.m. We have another panel at that time. Is there anything else anyone wants to add?

Mr. TABOR. Mr. Chairman, we just want to express, all of us, appreciation for the opportunity to be here, it is a complicated question and obviously, your committee has seen into all of the interplays of it.

In summary, I think we would only say that the present bill is too rigid, it makes us get right to the brink, it will therefore cause abrupt action which hurts our trading partners. We would like an act which has more flexibility, S. 2053 does this, and we earnestly commend it to this learned committee.

Thank you.

The CHAIRMAN. I think you said the present bill, you mean the present law?

Mr. TABOR. I meant the present act. Thank you.

The CHAIRMAN. And S. 2053 is your choice?

Mr. TABOR. S. 2053 is our choice.

The CHAIRMAN. Even against H.R. 8547?

Mr. TABOR. Is that the Ashley bill, sir?

The CHAIRMAN. Yes.

Mr. TABOR. As against H.R. 8547, if we had our choice, we would prefer S. 2053. We think that the Ashley bill, the number of which you referred to, is a great improvement on the present act, but we would like S. 2053.

The CHAIRMAN. Thank you very much, gentlemen.

We certainly appreciate it.

The committee will stand in recess until 2 p.m.

[Whereupon, at 12:30 p.m., the hearing was recessed, to reconvene at 2 p.m., this same day.]

[It was requested that the following be inserted in the record:]

Statement of
J. Dawson Ahalt
Deputy Associate Director for Economic Policy
Cost of Living Council

Before the

SUBCOMMITTEE ON DEPARTMENT OPERATIONS
of the
HOUSE AGRICULTURAL COMMITTEE

September 26, 1973
10:00 a.m.

FOR RELEASE AT 10:00 a.m.

I am pleased to have this opportunity to discuss with you some basic facts concerning the fertilizer situation and to review the major factors the Cost of Living Council needs to explore in considering taking any action in the fertilizer industry. As you are aware, the Fertilizer Institute on September 5 petitioned the Council for an exemption from price controls for the entire fertilizer industry. In response to this request, the Council asked the Economic Research Service of the U.S. Department of Agriculture to prepare a detailed analysis of the fertilizer situation. This study has now been prepared for the Council. In addition the Council staff has collected extensive information and has devoted considerable analysis to the problems in the fertilizer industry.

The Cost of Living Council recognizes that under certain circumstances higher prices can have positive effects on supplies. But because of the complex nature and interrelationships that exist in markets, other factors

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need to be taken into consideration. These are: (1) higher prices may discourage some exports, but they may also lead to the development of higher prices abroad; (2) higher prices may divert additional resources into fertilizer production channels, and as a result lead to additional price increases elsewhere; (3) higher prices may generate some additional productive capacity, but this is a long process. Therefore, it is necessary to seek a delicate balance between price increases to encourage adequate supplies of fertilizer for farmers' needs in the short run while at the same time avoiding significant upward price pressures in agriculture as well as other sectors of the economy. This situation is further complicated by the fact that other industries face similar problems and see no reason why they shouldn't be decontrolled.

Supply Situation

Production of fertilizer in the United States in 1973 totaled 43 million tons and sales amounted to over $3 billion according to industry sources. This compares with an output in 1960 of nearly 25 million tons, or an increase of more than 70 percent. This dramatic expansion demonstrates the importance that fertilizer has played as a major farm production input.

During the latter part of the 1960's, considerable excess capacity developed in the fertilizer industry. Prices for fertilizer materials softened, and a substantial number of plants became unprofitable and were forced to close. The results of less efficient plants dropping out of production, coupled with growing demand for fertilizer materials, led to some tightening in the supply-demand balance beginning in 1971. Since 1971, the situation for nitrogen and phosphates has firmed considerably and the industry finds itself in a situation where prices are rising.

Nitrogen

Despite the claims by some that the controls program discourages an expansion in productive capacity, the primary limitation on expanding nitrogen production in 1973/74 does not appear to result from the rules or regulations of the Economic Stabilization Program. During 1972/73 anhydrous ammonia plants (the major source of nitrogen) operated at 86 percent of capacity. USDA estimates that operating rates for nitrogen production could rise to 90 percent in 1973/74. However, as pointed out in the USDA report, potential curtailments in the supply of natural gas to ammonia producers would significantly reduce nitrogen production this season. In the U.S. virtually all ammonia is produced with natural gas. Because of lower prices for these users, a substantial number of ammonia producers have contracts with gas suppliers that have "interruptable" clauses. This means that if higher priority users' needs are not met, gas supplies can be temporarily halted. During the past three years interruptions have been increasing, and natural gas suppliers have warned ammonia producers to expect curtailments again this winter. Thus, even if fertilizer prices were to be decontrolled it is unlikely that more natural gas could be diverted to ammonia producers.

Taking these production restraints into consideration, USDA estimates nitrogen output could expand 8 percent in 1973/74 but given the domestic and foreign demand, supplies could run as much as a million tons below requirements for the current season. (Table 1) This problem is compounded by the fact that anhydrous ammonia stocks are down to normal levels compared to the unusually large inventory at the beginning of last season.

Phosphates

The phosphate situation does not appear as tight as in the case of nitrogen. By assuming that phosphate plants can operate at 90 percent of capacity, USDA estimates that domestic requirements will be met in 1973/74, although they expect export demand may not be satisfied. (Table 1) There are some idle phosphate plants that could be activated, as they were temporarily during the past season. It is conceivable that some upward price adjustments for phosphate fertilizers could permit profitable operation of these less efficient plants.

Potash

Potash supplies continue to be more than ample to meet the demand. The potash industry, unlike the nitrogen and phosphate industries, continues to have considerable excess capacity rather than shortages of product.

Export Demand

Growing out of the substantial rise in world prices for grains and the impact of devaluation, the USDA report estimates that exports of nitrogen will total 1.7 million short tons in 1973/74 out of a total supply of 10.8 million tons, an increase of 26 percent over the previous year. Phosphate exports are expected to also climb to 1.7 million tons, out of a total supply of 6.9 million tons, up one-fifth from the previous season's shipments. The surge in foreign demand is evident from the performance so far in calendar 1973 when exports of ammonium phosphates rose 34 percent from the same period in 1972, and exports of anhydrous ammonia were up 54 percent from the corresponding period a year ago. (Table 2)

In the late 1960's domestic prices averaged above world levels. But beginning in 1971 as world demand for ammonia strengthened and AID shipments picked up, world prices moved above domestic levels. With the strong world demand continuing this season, the gap between domestic and foreign prices has widened significantly. (Table 3) Still, exports make up only a relatively small proportion of the market for fertilizer. For example, in 1972/73 they absorbed only 13 percent of the available supply of nitrogen and 22 percent of the available supply of phosphates. Accordingly, if the estimated domestic shortfall is to be fully eliminated by diversion of exports, shipments abroad will have to be curtailed dramatically. (Table 1)

Domestic Demand

By far the major share of domestic fertilizer demand is attributed to farm use with nonfarm use (residential and recreational uses, etc.) accounting for only an estimated 15 percent of domestic demand.

Best available estimates show that eliminating set-aside restrictions will tack on an added 10-12 million acres onto next season's plantings. Assuming normal expansion in industrial demand, the increased acreage next year will contribute to an increase in domestic demand for nitrogen of about 26 percent and phosphate about 19 percent.

Some argue that the Economic Stabilization Program, by holding the line on domestic fertilizer prices, is not allowing domestic users to effectively compete for fertilizer supplies. Crop prices are now running about 66 percent higher than a year ago and farmers are in a good position to absorb higher fertilizer costs.

In addition to the economic fact that this year's higher prices for crops are expected to encourage expanded usage of fertilizers, the soil also demands a certain replacement level of nitrogen each year. However, phosphates tend to build up in the soil and applications can be reduced in the short-run without materially damaging crop yields.

In the wheat area, there have been reports that some suppliers may be holding fertilizer deliveries pending action to be taken by the Cost of Living Council. Even if controls were to be removed today, alleged increases in availability of supplies would not occur in time to benefit wheat growers. Winter wheat plantings are now between a third and 50 percent complete, though running somewhat behind normal due to wet weather in some areas. It is estimated, however, that seedings will be completed within the next few weeks. It is important to note also that not all wheat acreage receives fertilizer. Last year, 37 percent of the wheat acreage went without fertilizer. Indeed, the heaviest use of fertilizer is on corn where virtually all of the acreage is fertilized at spring planting time.

Fertilizer shipments for spring plantings will begin to move sometime during the February - early March period. In the meantime, some wheat farmers will be top dressing (applying liquid fertilizer to seedlings already in the ground) and indications are that supplies are probably adequate for these needs. Thus the impact of controls on fertilizer supplies needs to be evaluated in terms of the potential effects on the crops that will be planted next spring.

Prices

As a result of the excess capacity that existed in the fertilizer industry during the late 1960's, and plentiful supplies of basic inputs such as natural gas, prices paid by farmers for fertilizer in 1972 averaged only 3.9 percent above the 1960 level. However, markets continued to tighten in 1972 and early 1973. As a result, farmers last spring paid 10 percent more for nitrogen materials than in the previous season. (Table 4)

Thus far in Phase IV, only a few companies have prenotified the Cost of Living Council for price increases. It is anticipated, however, that other companies will follow suit. Even if the industry implements higher prices consistent with the rules in Phase IV, the high prices farmers received for the 1973 crops will stimulate increased demand for fertilizer.

Implications of Removing Controls

While on the one hand, elimination of price controls would serve to reduce the differential between domestic and foreign prices and provide incentives for attracting capital necessary for expanding capacity, the issue of exemption raises significant problems with respect to the overall objectives of domestic price stability. Some of these problems are:

- A substantial portion of 1973/74 fertilizer export sales are already contracted (estimates range from 50 to 90 percent). Therefore, removing controls would probably not make much more fertilizer available for farmers during the coming season.
- To the extent that supplies are not tied up in contracts, domestic prices would rise sharply. The USDA report estimates that wholesale prices would rise by as much as 50 percent and at retail the increase could be in the30-35 percent range if fertilizer prices were entirely removed from controls.
- Removal of controls at this point in time would not increase the amount of fertilizer available to wheat growers. Between a third and one-half of this season's crop is already seeded. The critical period is next spring.
- Fertilizer output response to price changes is relatively slow. It is estimated that it takes three years partly because of anti-pollution requirements, and a minimum of

$30 million to build a new plant and up to $80-$100 million for an efficient facility. Higher prices might bring some less efficient phosphate plants back into production, but the primary restraint on ammonia production is the availability of natural gas. Manufacturers of explosives (which use between 10 and 20 percent of anhydrous ammonia and ammonia nitrate supplies) have already cautioned the Cost of Living Council against removing controls on fertilizer. They point out that exempting fertilizer would pull ammonia supplies away from the production of explosives which is essential to the coal and other mining industries.

- The Council cannot consider decontrolling fertilizer prices without evaluating the impact of removing controls on wages in the fertilizer industry, and the potential effects of such action on the stabilization of wages of workers in other segments of the chemical industry.
- Removal of controls for the fertilizer industry will generate considerable demands for equal treatment from other industries with similar problems. The results of such developments could potentially jeopardize the Cost of Living Council's objective to materially reduce the rate of inflation and to systematically decontrol major sectors of the economy in a manner that will not be accompanied by a large surge in prices.

Export Controls

There has been discussion in some segments of the industry about the possible needs for export controls on fertilizer. As you know the Administration has requested the Congress for additional flexibility in administering export controls. Representatives from the Cost of Living Council, the Department of Agriculture and the Department of Commerce are testifying at this very hour before the Senate Banking Committee on this topic. As you know, the Administration does not favor export controls as a permanent policy. As the President indicated in his July 18, 1973, statement--

> "To a considerable degree, export controls are self-defeating as an anti-inflation measure. Limiting our exports reduces our foreign earnings, depresses the value of the dollar and increases the cost of things we import, which also enter into the costs of living of the American family."

In that statement the President was referring to our policy on export controls with respect to the agricultural products, but an analogy can be extended to inputs such as fertilizer used in food production. Thus, unless it appears that foreign demand is much greater than our expectations, it would not appear to be a wise course of action to impose export controls on shipments of fertilizer. Only under the most severe circumstances should this course of action be taken.

Summary

I have attempted to present a brief description of the facts and circumstances as we see them surrounding the present fertilizer situation. It is clear that the supply for balance for 1973/74 is extremely tight. It is not so clear, however, that the complete removal of controls on this important industry will work to the best interests of all parties involved. There are a number of crucial policy implications associated with this issue that must be worked out. The Cost of Living Council is in the process of deliberating on these matters, and expects to reach a decision shortly.

Table 1

Estimated Supplies of N & P_2O_5 in 1972-73 and
Projected Supplies and Requirements for 1973-74 1/

	Nitrogen 1,000 tons N		Phosphate 1,000 tons P_2O_5	
	1972-73	1973-74	1972-73	1973-74
Supply from domestic production	9,891	10,000	6,292	6,600
Imports	851	800	312	300
Total available supply	10,742	10,800	6,604	6,900
Exports	1,350	1,700	1,424	1,700
% available supply exported	12.5	15.7	21.5	24.6
Net supply for U.S. farm use	9,392	9,100	5,180	5,200
Estimated 1973-74 requirements		10,100		5,900
% net supply is of requirements		90		88
Deficit		1,000		700

1/ Fertilizer year July 1-June 30

2/ Prepared by USDA

Table 2

Exports of Fertilizer Materials 1/
(short tons)

	January-June 1972	January-June 1973	% Change 1972/1973
Ammonia Anhydrous	247,272	381,657	54.3%
Urea	219,442	242,812	10.6%
Ammonia Phosphates 2/	752,663	1,005,572	33.6%
Concentrated Superphosphate	305,145	310,923	1.9%
Phosphate Rock	532,828	438,159	-17.8%
Potassium Chloride 3/	440,967	554,447	25.7%

1/ Source: Bureau of the Census

2/ Represents approximately 95 percent diammonium phosphate

3/ Includes: muriate of potash and potassium

Source: U.S. Department of Commerce

Table 3

Comparison of Domestic (U.S.) and Export Prices of Granular Triple Superphosphate and Diammonium Phosphate ($/Net Ton F.O.B. Tampa, Florida)

Year Ending June 30	U.S. price 1/		Export price 2/		$/Ton Differential	
	TSP 3/	DAP 4/	TSP 3/	DAP 4/	TSP 3/	DAP 4/
1969	48.30	66.30	35.65	NA	12.65 5/	NA
1970	42.15	58.10	46.19	53.08	4.04	5.02 5/
1971	40.85	56.45	53.48	51.52	12.63	4.93 5/
1972	42.35	58.30	50.82	75.77	8.47	17.47
1973	47.20	64.90	82.60 6/	96.80 7/	35.40	31.90

1/ CF Industries, net selling price to member, F.O.B. Tampa.
2/ Award prices on exports as reported by International Commodities Export Corps, F.O.B. Tampa.
3/ TSP--Triple superphosphate.
4/ DAP--Diammonium phosphate.
5/ In favor of U.S. price.
6/ ICEC Report No. 645, April 10, 1973, June delivery.
7/ ICEC Report No. 628, January 5, 1973, April delivery.

NA=Not available

Prepared by USDA

Table 4

Prices Paid by Farmers Per Ton for Selected Commercial Fertilizers (1960, 1972 and 1973)1/

	1960	1972	1973	% Change 1972/1973
		(Dollars)		
Mixed Fertilizers				
5-10-10	49.9	55.7	59.8	7.4
Fertilizer Materials				
Anhydrous Ammonia	141.0	80.0	87.6	9.5
Ammonia Nitrate	81.6	64.7	71.4	10.4
Urea	117.0	81.4	90.3	10.9
Superphosphate2/	37.5	49.9	53.7	7.6
Muriate of Potash	51.2	58.8	61.5	4.6

1/ April 15 - Source: USDA, Agricultural Prices

2/ Normal (20 percent)

Afternoon Session

The Chairman. Let the committee come to order, please.

I am hopeful we will have some more Senators here, but we better get going, because we will have to be going back and forth between here and the Capitol.

Senator Javits, we are very glad to have you lead off the procession this afternoon. We welcome you back to the committe and we will be glad to hear from you as you wish.

STATEMENT OF JACOB K. JAVITS, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator Javits. Mr. Chairman, I am here to testify today in favor of S. 2411 introduced by me with Mr. Stevenson, a member of the committee.

The bill proposes to provide for the regulation of the export of agricultural commodities.

I consulted with Senator Stevenson about the bill, and he, with his usual graciousness, wanted me to take the lead in it, though he is a member of the committee and he very graciously joined with me.

The Chairman. He will be here shortly. He was here throughout the morning session.

Senator Javits. Now the first point I would like to make, Mr. Chairman, is that this is a matter of international economic policy as well as a matter of domestic agricultural price policy. Hence my interest in the subject as the former, to wit: international economic policy, has been a major concern of mine so long as I have been in public life.

Now the bill, Mr. Chairman, is designed to give authority to the President to impose a system of regulation on the export of agricultural commodities, with two objectives:

1. To insure American consumers reasonable amounts of raw agricultural commodities at relatively stable prices, unaffected by excessive and inflationary foreign demand.
2. To institute a system for the allocation of our export surplus in agricultural commodities so that countries which have developed a reliance on the American farmer will be able to secure their fair share of American surpluses and also the developing countries, which otherwise might lose out in a competitive race for American exports, would have an equal opportunity to have their needs met.

The bill requires the Secretary of Agriculture to estimate the crop production for raw agricultural commodities at the beginning of the crop year, to determine those amounts necessary for domestic consumption in the United States, including a reasonable amount for carryover to build up U.S. stocks. The remainder is to be allocated for export to foreign countries.

The Secretary of Commerce may set aside up to 10 percent of the export amount in a reserve to be used for emergency situations, such as famine, crop failures, and unexpected increases in demand. This important 10-percent catastrophe reserve provision recognizes our humanitarian obligations to the world. Indeed I have just returned from a visit to one of the Sahel countries of West Africa—the Upper

Volta—to investigate the famine situation there. We cannot create an export regulation policy without taking these humanitarian needs into account.

Now having set-aside the reserve and determined the amount available as an estimate for export, the bill directs the Secretary of Commerce to set up a system for the sale of export licenses through auction, licenses being sold to the highest responsible bidders, except that in the case of exports to the developing countries with balance of payments problems, the licensing would be issued without charge.

The fees collected from the licensing system will be placed in a special trust fund to be used for agriculturally related purposes, to wit, school lunch, food stamps, commodity distribution to the poor, and research to increase agricultural productivity.

The Secretary will be authorized to lift the licensing system for any agricultural commodity which he determines is produced in sufficient quantities to meet both U.S. demand and normal world requirements.

Now the arguments in favor of the bill:

The first argument, Mr. Chairman, is the need for assuring the United States of a suitable carryover. This is critically important because right now we are planning an aggregate wheat production, including the carryover, of 2,156 million bushels. Domestic use is projected at 755 million bushels; exports are expected to total 1,100 million bushels, leaving a 300-million-bushel carryover. That is a minimal carryover and it is feared that the carryover may be less, down as low as 200 million bushels. This is considered insufficient to insure price stability.

Indeed prices might even go up, notwithstanding that they are right now at an all time high of $5.43 a bushel, or triple the cost a little more than a year ago. So a rational system of export licensing will enable us to make advance provision for a suitable carryover.

The second factor is the real feeling—and I share it—that excessive, I emphasize that word, foreign demand has been the chief factor in driving up domestic commodity prices. We have the biggest rise in food prices at the retail level in a single month during the month of August, since July 1946.

This price increase for the first time shows the average worker worse off, notwithstanding wage increases, than he has been before in terms of his actual standard of living.

Now it is hoped that productivity will cause some price declines, but nobody predicts a long-term decrease in the price of grains, even on the basis of increased productivity.

It is necessary therefore to avoid the mistake we made in our export cutoff respecting soybeans. Even though we went up the hill and then down it again, it didn't reassure anybody as to the reliability of American supply. But now we need to establish in advance an equitable system of export licensing that would prevent runaway commodity prices and ration available supplies between domestic and foreign consumers.

One very important point: We cannot allow the play of the open market to permit foreign countries which have the money, especially at the devalued American dollar, to build up their own food reserves at our expense when no such reserve is any longer available within the United States itself.

At the same time, we must assure our traditional customers of a fair share of our supply, with the reservation of a portion for emergency and humanitarian needs and consideration for the needs of the developing countries.

Mr. Chairman, I have no illusions about the fact that the United States should be wasting vast amounts of food or indulging itself while any part of the world is starving. And that is not the thrust of what we have in mind. But neither can we pragmatically assume that an export policy is not going to soon be a crackdown policy, if the American people feel that they are being deprived in a real sense, or that their prices are being very materially escalated because of an absolutely restrained foreign demand, with the danger, as I pointed out, that the foreigners will build up their own reserve stocks at the expense of the United States.

Now, Mr. Chairman, I am very pleased that Elliot Janeway, a very distinguished economist, indorsed this bill. He will be testifying tomorrow, but we have read his testimony and it is an endorsement of this bill.

I would also like to call the committee's attention to testimony of Arthur Okun, formerly Chairman of the Council of Economic Advisers to the President, now senior fellow at Brookings, who testified today before the Subcommittee on Consumer Economics of the Joint Economic Committee and said the following:

> The one constructive measure that could provide insurance against continued food inflation would be the setting of export ceilings for key farm products, designed to moderate, not to reverse, the growth of foreign sales and to distribute the products equitably to countries that have traditionally depended on the United States as a supplier.

I close, Mr. Chairman, as follows: I have been known—and I am very proud of that fact and intend to stand by it—as a lifelong supporter of freer international trade. In the long term it is essential to reduce, not increase, the free flow of the barriers to the free flow of commerce among nations. But in times of scarcity, the market alone may be inadequate to protect the needs of those who can be the most oppressed by scarcity, both in our country and abroad. And also such conditions can encourage undue speculation and large speculative profits for the few, and so it seems to me that if we are to temper our move from boom conditions to a recession, that would have very damaging effects on the United States and the world, the responsible course is to take some ameliorative measures and one of those measures should be an intelligent system of control for the export of agricultural commodities.

Now Senator Stevenson and I have offered this plan, the fundamental point is its thrust, and the efforts being made to take care of legitimate balanced needs, that is, domestic and foreign, including the needs dictated by humanity and the needs of the developing countries.

And we have proposed to the committee a way in which we believe this can be done. And we hope very much the committee may consider it suitable as a basis for its deliberations.

The CHAIRMAN. Thank you very much, Senator Javits.

Senator Stevenson?

Senator STEVENSON. Thank you, Mr. Chairman.

I just want to commend the Senator for this statement and the amendment.

Senator Javits, I too am committed in principle to free trade, a free exchange of goods and capital between the countries of the world. I think free trade in principle is essential not only to our economic welfare, but also to a healthy political relationship with countries throughout the world. But as Senator Javits says, I have come reluctantly to the conclusion that the United States is simply incapable of producing sufficient food with which to meet its own needs at reasonable prices, and the world's needs for food.

And that being the case, we are faced with the necessity of devising ways of allocating scarce commodities throughout the world.

His proposal, which I am very pleased to cosponsor, devises a new way of doing that, allocating scarce commodities, a licensing system with the fees from that, the revenues from that new system going back into the generation of more agricultural production in the country.

I don't think, Senator, that we are likely in these hearings to develop a sufficient record upon which to act on this proposal during the forthcoming markup on the Export Administration Act. But as you know, that act expires on June 30, and before that time the committee will have to take up an extension of the Export Administration Act, and when it does so, I would hope that we could develop, and starting now, a full record upon which the committee could consider and very seriously, this proposal.

I dare say refinements will be offered by others. And at that time perhaps act favorably on it.

Mr. Chairman, I have no questions. I just wanted to thank and commend Senator Javits for making an extremely ingenuous and highly constructive contribution to the solution of a critical problem not only for hard-pressed consumers in this country, but for consumers of food throughout the world.

Senator JAVITS. Senator Stevenson, I am very grateful, you were so generous about espousing this with me when you felt it was a good idea and you went right with it.

I always do the same thing and I like that. And also the other point is that although both of us are dedicated to freer trade, one can't be doctrinaire about it. You sometimes have to do something of a retreat in order to advance on another occasion.

I think this is a very serious case in point.

Finally, knowing foreign trade, as Senator Stevenson and I both do, it seems to me that it is to the interest of other nations to know where they are at. That was the big thing about the soybeans, it was very sudden, and then when it was restored in part, it didn't have the desired effect, because it had shaken their confidence in the fact of America being a steady and dependable supplier. And that is what this is designed to avoid. People will know where they are at in advance, and then they can plan accordingly.

Senator STEVENSON. And also it does provide for reserves with which to meet unforeseen contingencies, droughts, for example, throughout the world.

I think very rightly also an exception from the auction requirements for nations within the third world, which have the greatest need and are the least able to meet that need.

I hope we can give this proposal the very serious consideration that it deserves and I am confident that the committee will.

Senator JAVITS. I thank my colleague very much.

And I would like to, Mr. Chairman, if I may, complete the record by stating that Mr. Frank Ballance, who is here with me, who is my economic staff man, has had a lot to do with developing this idea. I want to be sure he is given full credit in the discussion of it.

The CHAIRMAN. Well, thank you very much, Senator Javits, we appreciate your contribution.

[Complete statement of Senator Javits follows:]

STATEMENT OF JACOB K. JAVITS, U.S. SENATOR FROM THE STATE OF NEW YORK

I am pleased to have the opportunity to testify today before the Committee on Banking, Housing and Urban Affairs on the Export Priorities Act, which Senator Stevenson and I have introduced. We regard this bill as an extremely important measure in the fight against inflation at home. It recognizes that certain basic agricultural commodities may continue to be in short supply for the foreseeable future, and it attempts to meet this situation by creating a licensing system for agricultural exports. This system would not be necessary when domestic production is sufficient for domestic use and normal exports, and therefore in no way disturbs the farmers' incentive to produce.

Before I proceed with a discussion of the bill, I would like to give the Committee some examples of why I think this bill is imperative. I am sure all of you are aware that the grain stocks of the major exporting countries, including the United States, are at their lowest levels in twenty years. The drawdown of our wheat reserves has been accompanied by an enormous increase in the price of wheat, up to $5.43 a bushel, or triple its cost a little more than a year ago. The Administration has been extremely reluctant to apply export controls to wheat, in view of the criticisms by other countries of the application of export controls to soybeans and other commodities.

The Administration has placed its faith in expanded acreage for grain production and hopes that the record wheat crop forecast for the 1973–74 harvest will obviate the need for export controls. Although the Department of Agriculture has predicted that next year's wheat harvest will total 1.89 billion bushels, an increase of almost 10 percent over this year's crop, there are nevertheless strong reasons to fear that this may be insufficient to satisfy both domestic and foreign demand. Wheat reserves on July 1st totaled 428 million bushels. When 1973 wheat production is added to this figure, we arrive at a total supply of 2.156 billion bushels. If domestic use is projected at 755 million bushels and exports are expected to total 1.1 billion bushels, this would leave only 300 million bushels as a carryover by next summer.

There is a good deal of evidence that wheat exports will in fact be more than 1.1 billion bushels, perhaps as high as 1.3 billion or more bushels. Further foreign purchases of American wheat could diminish our carryover stocks to 200 million bushels or less. It is worth pointing out that the very last part of the carryover stocks are often in bad condition because of long storage and are not as high in protein as newer stocks. Carryover stocks of 200 million bushels or less are insufficient to have any significant effect on price stability. The United States might then be faced with even higher wheat prices than we have seen recently, with sharp fluctuations in the market. Unforeseen events, such as bad weather or lack of sufficient fertilizer, will reduce the size of the crop projected, and could send the grain market into a condition bordering on panic.

This is a situation that should not be allowed to develop, and in fact can be prevented by a rational system of export licensing. The continuing delay by the Administration in applying export controls to scarce agricultural commodities will only make the situation more painful when it finally becomes necessary to apply export embargos.

It is clear that excessive foreign demand for certain raw agricultural commodities has been the chief factor in driving up domestic commodity prices. For the consumer this has been translated into the biggest rise in food prices at the retail level in a single month since July 1946. During the month of August, food prices increased by 6.1 percent. This price increase means that the average worker had less real purchasing power at the end of August than he had at the beginning of the month.

The Department of Agriculture is hopeful that increased production will cause some price declines, but it is difficult to find anyone who is predicting a long-term decrease in the price of grains.

In these circumstances it is essential to establish an equitable system of export licensing that would prevent runaway commodity prices and ration available supplies to domestic and foreign customers. In all fairness we cannot contribute to foreign countries developing their own cushion of food reserves at our expense, when such a reserve is no longer available to the United States, one of the prime producers. At the same time, we must continue to supply our traditional customers with a fair share of supplies, and reserve a portion for emergency and humanitarian needs.

The Export Priorities Act balances two important objectives as follows:

(1) It would seek to insure American consumers of reasonable amounts of raw agricultural commodities at relatively stable prices, unaffected by excessive, and inflationary foreign demand; and

(2) It would propose to institute a system for the allocation of America's export surplus, so that countries which have developed a reliance on the American farmer would be able to secure their fair share of American surpluses, and those developing countries which otherwise might lose out in the race for American exports would have an equal opportunity to have their needs met.

My proposal requires the Secretary of Agriculture to estimate the crop production for raw agricultural commodities at the beginning of the crop year, and to determine those amounts necessary for domestic consumption in the U.S. including a reasonable amount for a carryover to build up U.S. stocks. The remainder is to be allocated for export to foreign countries. The Secretary of Commerce may set aside up to 10 percent of the export amount in a reserve category to be used for emergency situations such as famine, crop failure and unexpected increases in demand. This important provision recognizes our humanitarian obligations to the world.

I have seen personally the catastrophic effects of prolonged drought on the peoples of the Sahel countries of West Africa. The United States has an obligation to reserve a portion of its supplies for alleviating the suffering caused by natural disasters. We cannot create an export policy without taking these needs into account.

The bill then directs the Secretary of Commerce to set up a system for the sale of export licenses through an auction system. Licenses will be sold to the highest reasonable bidders; except that in the case of exports to developing countries with balance of payments problems the licenses will be issued without charge. The fees collected from this licensing system will be placed in a special trust fund to be used for agriculturally related purposes; school lunch programs, food stamps, commodity distribution, and research to increase agricultural productivity. The Secretary will be able to lift this licensing system for any agricultural commodity which he determines is produced in sufficient quantities to meet both U.S. demand and normal world requirements from the U.S.

The United States is almost alone in allowing the export of its raw agricultural products without limitations, and if we take this step we shall be following only the counsels of prudence and the example of the majority of other nations. Australia, Argentina and the Common Market countries have already imposed export embargos on wheat shipments.

It is not an easy task for me to introduce a bill setting up an export licensing system, when I have been a lifelong supporter of freer international trade. I continue to believe that in the long run it is essential to reduce the trade barriers that preevnt the free flow of commerce among nations. However, we must recognize that in times of scarcity the market alone is inadequate to protect the needs of the poor, both in our country and abroad. Instead, it can create conditions that encourage speculation and large speculative profits for a few. If the United States is unable to bring our own inflation under control, we may well move from boom conditions to a recession that would throw our own citizens out of work and would inevitably spread to other countries in a worldwide recession. I feel strongly that the responsible course of action is to accept the necessity for export licensing for agricultural commodities now.

The CHAIRMAN. The next witness is Robert L. Schaus, Independent Bakers Association.

We are very glad to have you, sir.

For the benefit of the record would you identify the others who are with you?

I must leave, Senator Stevenson, and I would appreciate it if you would take over.

Mr. SCHAUS. Mr. Chairman, shall we proceed?

Senator STEVENSON. Please proceed, and if you would, first by introducing the gentlemen with you. I assume we do have a statement from you.

Mr. SCHAUS. A position paper; yes.

Senator STEVENSON. You may proceed in any way you like. We do have your position paper and some supplementary comments. If you would like to summarize them, we would be glad to enter those statements in the record [see p. 100].

STATEMENT OF ROBERT L. SCHAUS, INDEPENDENT BAKERS ASSOCIATION, ACCOMPANIED BY GEORGE ROSENTHAL, MEMBER, INDEPENDENT BAKERS ASSOCIATION; BERNARD REESE, MEMBER, W. E. LONG CO.; JOHN PEYTON, TREASURER, AMERICAN BAKERS COOPERATIVE, INC.; RICHARD KELLY, ATTORNEY, IBA; AND ROBERT E. KETT, PRESIDENT, W. E. LONG CO., INDEPENDENT BAKERS' COOPERATIVE

Mr. SCHAUS. We will do that. We represent the Independent Bakers Association of America and, as you know, the industry is a $6.5 billion industry and this segment of the industry does about $3.25 of that $6.5 billion.

In this room we have Bob Kett, on the end, who is the president of W. E. Long Co., a large cooperative of about 80 bakeries and they do about $365 million in sales throughout the United States. They are located in Chicago, but their bakeries are all over the country.

Next to me is George Rosenthal, a member of IBA. He has two bakeries, one in New York City and one in Boston.

We have to the right, Mr. Bernard Reese, who is a member of the W. E. Long Cooperative and he has four bakeries in the Wisconsin-Minnesota area. Next to him is John Peyton who is the treasurer of the ABC Cooperative, a third cooperative, and they have sales of about $250 million and they have bakeries in a good many of the States.

I am Robert Schaus, president of Quality Bakers of America. We are the largest of the cooperatives and we do $650 million in the most of the States of the United States.

So we represent a good percentage of our industry. We also wish to preface our remarks, I would, by saying we agree with the comments made here just recently by yourself and Senator Javits, but we also wish to indicate that this country has taken on the assignments of almost 1 billion more customers through our recent export deals with the East, Russia, China and so on, and that is a real strain on any country as great as the United States might be.

I think a good part of the problem is we feel we have a real emergency, we have no time to wait until next July 1, in our opinion, for a decision on whether or not we have ample wheat supplies for our industry. We do not produce wheat, we do not buy wheat, we are bakers and we buy flour from our millers.

This position paper that we are issuing today is on top of a previous paper of 3 weeks ago and it has been updated as to the latest we can gather from the Department of Agriculture, the Department of Commerce and any other sources we know of in the milling industry. It is our recommendation that the U.S. Government should promptly face the domestic and internal international responsibilities as respects the exportation of wheat to avoid a real calamity.

Maximum potential U.S. supply is 1.73 billion bushels if a record crop is achieved. There was a 428 million bushel carryover, or total supply of approximately 2.15 billion bushels of wheat.

Export commitments are reported at 1.442 billion bushels of which 292 million is unidentified with exports continuing.

A week ago we had the largest wheat export in the history of the United States in a single week. Domestic usage this year is estimated at 800 million bushels and that has been documented in the position paper. The Department of Agriculture comes through with a figure of 780. They may have revised it down to 760 but it is in that area.

Continued shipment of exports already committed the necessity of a minimum carryover in our "pipeline" and rising wheat prices foreshow a scarcity of wheat at exorbitant prices in the spring of 1974. It is beyond dispute that this will occur in some classes of wheat.

Additional demand from impoverished nations which have not yet made full commitments accentuates the problem.

We have not gotten those requests for wheat, yet, as we understand it, from the Department of Agriculture. Therefore, we respectfully suggest that there should be:

(1) Issuance of a joint statement by the U.S. Departments of Commerce and of Agriculture that it is the policy of the U.S. Government to sell all our excess wheat after assuring domestic requirements including a minimally reasonable carryover.

(2) Congressional imposition of export licensing requirements to provide for the orderly marketing of exports and assure minimally adequate domestic needs.

We are here today, therefore, because of our great concern with the very strong possibility of a scarcity of wheat and flour for this country during the present crop year.

We deal with 210 million Americans every day and we have to supply them with baked products as an industry. We urge passage of a bill such as S. 2411 to amend the Export Administration Act of 1969, with amendment thereto, to make such law effective immediately.

IBA, on behalf of the independent wholesale bakers of the United States sent every Member of the Congress a position paper dated September 4, 1973, urging administration action to prevent a bankruptcy of the Nation's wheat supply. A copy of that is herewith proffered for the record with minor notations thereon to reflect the changing situation in the intervening 23 days.

We bring it up to date every week—the changes every week.

Just 2 days ago the new U.S. Secretary of State called the attention of the United Nations to the "seriously depleted reserves" of global grain stocks, which was testified to here this morning.

The basic fact is that this Nation is faced with the threat of an unprecedented situation where there will be no bread or wheat for the American consumer in the spring of 1974.

That may be a little exaggerated. There will be a scarcity at least.

Senator STEVENSON. How do you explain the disparity between your estimates of a 600 million bushel deficit and the USDA estimates of pending stocks for 1973–74 of 289 and——

Mr. SCHAUS. It is simple. It is indicated in the next column of our position paper. And this is what the record shows they have shipped, 314 million, committed by contract, 786, the unidentified is 292 and the wheat products, which is flour that is produced here and exported is 50, so that is 1,442.

If you go through to the next page, it shows the total of 800. That could be 780, it could be 800 plus the carryover, here we must stress carryover. You cannot take wheat from the fields today and move it into a bakery tomorrow. So that we estimate that we need in the pipeline a minimum of 250 million bushels to keep this country going. Please also note the second asterisk indicates an estimated additional wheat supply necessary for export commitments, not yet asked for, by such countries as West Africa, Pakistan, Bangladesh, India, and many other depressed nations which have not yet bought supplies of wheat; apparently waiting for the market to come down to reasonable prices.

[The information referred to follows:]

SUMMARY OF INDEPENDENT BAKERS ASSOCIATION POSITION ON THE NECESSITY FOR LICENSING CONTROLS ON WHEAT EXPORTS

RECOMMENDATION

The United States Government should promptly face its domestic and international responsibilities respecting the exportation of wheat to avoid the very real possibility of a calamity in the Spring of 1974.

I. Supply

Maximum potential U.S. supply is 1.73 billion bushels if a record crop is achieved. There was a 428 million bushel carryover, or total supply of approximately 2.15 billion bushels of wheat.

II. Demand

A. Export commitments are reported at 1.42 billion bushels (of which 292 million is unidentified) with exports continuing.

B. Domestic usage this year is estimated at 800 million bushels.

C. Continued shipment of exports already committed, the necessity of a minimum carryover in our "*pipeline*" and rising wheat prices foreshow a scarcity of wheat at exorbitant prices in the Spring of 1974. It is beyond dispute that this will occur in some classes of wheat.

D. Additional demand from impoverished nations which have not yet made full commitments accentuates the problem.

Therefore, we respectfully suggest that there should be:

1. Issuance of a joint statement by the United States Departments of Commerce and Agriculture that it is the policy of the United States Government to sell all our excess wheat after assuring domestic requirements including a minimally reasonable carryover.

2. Congressional imposition of export licensing requirements to provide for the orderly marketing of exports and assure minimally adequate domestic needs.

TESTIMONY OF THE INDEPENDENT BAKERS ASSOCIATION

We are here today because of our great concern with the very strong possibility of a scarcity of wheat and flour for this country during the present crop year.

We urge passage of a bill such as S. 2411 to amend the Export Administration Act of 1969, with amendment thereto, to make such law effective immediately.

IBA, on behalf of the independent wholesale bakers of the United States, sent every member of the Congress a position paper dated September 4, 1973, urging Administration action to prevent a bankruptcy of the nation's wheat supply. A copy is herewith pro-offered for the record, with minor notations thereon to reflect the changing situation in the intervening 23 days.

Just two days ago the new U.S. Secretary of State called the attention of the United Nations to the "seriously depleted reserves" of global grain stocks.

The basic fact is that this nation is faced with the threat of an unprecedented situation where there will be no bread or wheat for the American consumer in the Spring of 1974.

Our calculations below show a potential U.S. deficit of almost 600 million bushels of wheat this year. The grim statistics, as IBA sees it, are:

DEMAND

	Approximate millions of bushels of wheat
Exports:	
Shipped (as of September 14, 1973)	314
Committed By Contract to Export:	
Identified as to Final Destination (as of September 7)	786
Unidentified as to Final Destination (as of September 7)	292
Wheat Products to be Exported	1,078
Exports and Commitments to Date	50
Per Department of Commerce and U.S.D.A	1,442
Domestic Needs	800
Total	2,242
Minimum Necessary Carryover [1]	250
Total	2,492
Estimated Additional Minimum Necessary:	
Export Commitments to Impoverished Nations [2]	250
Total	2,742

[1] IBA's estimate of the minimum carryover required to physically fill the "pipeline" to allow for transportation, availability of different classes of wheat reserves, etc. This is less than 50 percent of the annual domestic usage for human consumption and the lowest carryover in decades.

[2] West Africa, Pakistan, Bangladesh, and India are among the nations who are believed to have not yet made sufficient export commitments and are therefore not adequately included in the official statistics; yet all available information including projected famine and present crop failures indicate that there has been a hope against hope by some countries that existing historic high prices will come down. These countries will undeniable increase their demand for wheat—see for example the attached story in the Journal of Commerce dated September 19, 1973, reporting floods and crop failure in Pakistan.

SUPPLY

		Bushels
Domestic Crop	billion	1.73
Carryover at beginning of crop year	do	428
Total Supply	do	2.158
Demand	do	2.742
Supply	do	2.158
Shortage	million	584

The U.S.D.A. has indicated disagreement with the Department of Commerce export statistics on the basis that "unidentified" sales might find their way back into this country. Yet the above calculated deficit is twice the total sales unidentified as to ultimate destination. Even if we were to assume, as does Secretary Butz, that 200 million of the unidentified bushels in the statistics is "water" in that it is in the hands of international speculators which is available for domestic consumption if we are high bidder we are still short 400 million bushels. Even if we ignore anticipate demand of impoverished nations who have not yet obtained sufficient commitments for our exports and reduce the deficit another 250 million bushels, we are still short 150 million bushels. If this country could get by with 100 million bushels in the pipeline until the new crop is harvested, which IBA believes cannot be done, we *might* make it.

It has been argued that higher prices act as a market rationing mechanism which may decrease domestic or export demand. There is the further anticipation that some purchasing countries in anticipation of export controls have already obtained commitments for maximum rather than minimum needs. There is some hope that better production than is allowed for the official statistic in countries such as Canada and Australia may increase worldwide supply some 150 million bushels, enough to cover uncalculated shortages elsewhere. Secretary Butz has been debating the parameters of predicted worldwide shortage but the stark fact remains that Argentina, Australia and the E.C.C. have curtailed wheat exports, and Canada is rationing its wheat and has already taken drastic steps including outright subsidies to protect Canada's domestic requirements and the Canadian consumer.

In balancing the benefits and costs of licensing exports, the uncertainty of the situation itself is one of the strongest arguments for their immediate implementation. For example, if by the time it becomes absolutely and irrefutably clear to the Administration that export controls must be imposed, most shipments may have been completed to certain, possibly more affluent, countries. The choices for the Administration may be much more difficult next February when either people in Bangladesh must starve or the bread racks of this nation must be bare.

DOMESTIC UNAVAILABILITY OF WHEAT—PHYSICAL PROBLEMS

Domestic needs must be evaluated with the following factors in mind. Wheat must be transported, milled and shipped before it can be baked. In addition to sufficient total supplies, there must be adequate wheat available by category. Supplies of some classes of wheat such as durum and rye are already exhausted. The wheat shortage has already caused improper blending of old and new wheat with a resulting poor quality bread in some markets. For example, the Gardner Baking Company with plants in Wisconsin has just come off two weeks of such bread when the bread would break down after 24 hours. Numerous other wholesale bakeries belonging to the three cooperatives testifying here today have had similar experiences.

Nor can the baker even commit for his wheat in advance. There are few if any bakers who can obtain more than a monthly supply of flour from the millers. Furthermore neither the baker nor the miller is capable of hedging for the year's supply. There has never been such a requirement nor the evolution of financing such a monumental task for the independent businessmen. IBA does not believe the present problem is explained away by asserting that government does not have inventory responsibilty for millers' wheat needs. Individual bakers or millers lack the financial capability of effectively competing with foreign governments and cartels; any attempt at joint action of a magnitude even remotely approaching meaningful financial muscle would place the participants in serious jeopardy of violating our antitrust laws. An article by Professor Schruben at Kansas State University reported in September, 1973 Milling and Baking News, p. 13, vividly describes the impossibility of the situation for the U.S. businessman. Professor Schruben explains that during periods of worldwide grain shortages a free market in grains cannot properly serve a domestic economy and also protect U.S. national interests because most of the worldwide grain buying is by state monopolies. A copy is being submitted to the Committee herewith.

We should recognize that decisive action setting up an export licensing system as the means to preserve minimum domestic needs will also assure the ability to allocate our finite supplies in an orderly and reasonable manner.

There have been questions as to the moral issue that we need honor our contracts and that economics dictates we need preserve our overseas customers and markets. However these seem to IBA makeweight arguments since morality and national priorities would seem to favor the needs of our own citizens, and more impoverished nations without adequate food supply or commitments for our wheat exports.

Licensing of exports now is the logical and expected next step. By failing to act promptly earlier this year the U.S. found it necessary to impose a last minute embargo on soybeans. We believe most countries anticipate the U.S. will act to control farm exports as the rest of the world had done. Our entire national commitment to free enterprise and allowing the market to set the price for goods is based on the accurate assumption that customers buy based upon price, quality and terms. In other words other countries will continue to take the best deal available, regardless of who is the exporting country. It seems to IBA therefore, to the extent that the U.S. assumes unilateral self-imposed obligations not required by bilateral treaty we assume an unnecessary and in this case most weighty burden. We believe the U.S. should promote world trade and export our surplus goods to assist our balance of international payments. However we believe the U.S. should assure its citizens of sufficient food supplies, particularly of such an item as bread, the staff of life. We suggest the most appropriate standard which should become the unequivocal policy pronouncement of the Administration and the Congress is that the *U.S. shall assure itself of its domestic needs plus a minimally necessary carryover of its agricultural products*, and shall sell all its remaining agricultural surplus to the other nations of the world.

INFLATIONARY PRESSURE

The primary thrust of our testimony has been concerned with the availability of wheat to the baker and bread to the consumer. We see a strong possibility of this country without bread next Spring if nothing is done. However closely interrelated to the supply question is the price of wheat. The Independent Bakers Association Position Paper of September 4, 1973, at page 3, indicates that there has been a 300% increase in the piece of flour since the Russian wheat deal of last year. World demand and the increase in the price of wheat have effected all agricultural products. When the price of the grain used for feed went up the price of beef. chicken, pork, eggs, milk, butter, lard, shortening, etc. went up.

A twenty-three percent increase in raw agricultural costs in August of 1973 was accompanied by price increases of about 7¢ a loaf of bread in many parts of the U.S. Price increases of about another 5¢ a loaf are soon anticipated; and this is only the beginning if the wheat shortage continues to drive the price up.

Nevertheless there has been a major increase in the consumption of bread during the past seven weeks. Bread is still the staff of life, particularly for those who can least afford a reduction in real income.

It is anticipated that Congressional authorization of export licensing and an Administration announcement that it is government policy to assure domestic needs of agriculture products would, by themselves, have an extremely beneficial effect on holding down or stabilizing the price of wheat (which is indicated above, is already up well over 300% this past year).

CONCLUSION

We respectfully suggest that there is a serious inflationary problem prompted by abnormal foreign demand for wheat and that we are experiencing an excessive drain of our scarce materials. Wheat is scarce and now is the time for Congress to provide the mechanism for orderly export marketing by license. The Administration should simultaneously affirm by policy announcement its commitment to assure adequate reserves for domestic needs including a minimum reasonable carryover. This will assure availability and have a beneficial effect in counteracting the severe inflationary pressure on the cost of commodities to the American food manufacturer and to the consumer. Now is the time to act. By January there will have been so many shipments of wheat that the potential shortage may be alleviated only by choosing between cruel and unacceptable alternatives.

We wish to thank the Committee for its time and patience and urge immediate passage of an export licensing act effective to govern the wheat supplies now on hand and to be harvested. A bill applicable to "commodities harvested in 1974 and subsequent years" is just one year too late.

Mr. ROSENTHAL. Senator, we have ascertained from speaking to some people in the Department of Agriculture that the impoverished nations and those nations in the Far East and in Africa, such as Pakistan, Bangladesh, and so on, have been waiting for the price of wheat to come down and have not bought their wheat yet and they expect and the Department of Agriculture knows this, and they did not incorporate it in their testimony this morning, that there is a tremendous need for that area of the world. And these people are still going to come in here and ask for wheat.

The premier of Pakistan was here and he spoke to Congressman Wolf who told us yesterday that they are asking for tremendous quantities of wheat. These figures are not incorporated in the Department of Agriculture figures as yet. But undoubtedly they are going to appear.

Senator STEVENSON. Those figures are not incorporated in yours, either.

Mr. SCHAUS. We have so estimated 250 million bushels for that purpose—for impoverished nations. Now the carryover, let me clarify that, we are probably on that very low. That has not been proven by the Department of Commerce. The fact the figure should be probably about 300 million bushels, to keep the system going. And that we put in as an asterisk 1 and as asterisk 2, which explains the total picture.

Senator STEVENSON. Even without the 250 for the so-called impoverished nations, you would still end up, by your calculations, with a shortage.

Mr. SCHAUS. Oh, yes.

Mr. KELLY. Senator, I am the attorney for the association. The Department of Agriculture is not counting 292 million bushels of unidentified wheat, which we have broken out separately, but have included in our total. What the rest of the paper explains is the position of the Secretary of Agriculture as to "unidentified" wheat. We do not know where the final destination is. It might be held by international speculators and it will be sold to the highest bidder and if you, the United States, is the highest bidder, it will come back into the country.

Senator STEVENSON. Is that sum of 292 not included in the USDA figure?

Mr. KELLY. That is right. It is in the Department of Commerce figures, but the Department of Agriculture chooses not to count those 292 bushels.

Mr. SCHAUS. That was one of the thrusts of the first position paper. That was a 3-week hiatus, for somebody to count up all of the numbers and find out where we are.

Now, shall I proceed?

Senator STEVENSON. Let me ask one other question.

I come from a State that is not a wheat producer; we produce corn and beans. As the demand and price for wheat goes up, do you find buyers moving into other commodities, like barley?

Mr. ROSENTHAL. Primarily corn, Senator, and feed.

Senator STEVENSON. Wheat is not a feed grain.

Mr. ROSENTHAL. It is a feed grain; it has been over the years. The USDA figures——

Senator STEVENSON. You mean feed for poultry?

Feed for animal consumption. Up to 200 million bushels a year which would amount to about 12 percent of our present, 12 to 15 percent of our present—this year's crop.

Mr. SCHAUS. We might clarify that 800 million, if you want to break that down, 550 is domestic consumption; 75 for seed; and 175 for feed.

Now, feed will vary, depending on the year and so forth, but in the last 3 years it has been around 175 million bushels.

Senator STEVENSON. The point I am getting at is if your projections are right and USDA's are not, when the demand for wheat gets shifted into other grains, including corn and other feed grains as we develop shortages and high prices, the consequence will be shortages and higher prices for those commodities than are projected.

Mr. KELLY. In the last several days the Department of Agriculture has reduced its domestic needs estimate from 780 million bushels to 755 million bushels. It was to late for us to change our paper. But that is a minor change. We are talking about hundreds of millions of bushels.

Mr. SCHAUS. That is why we preface our remarks by saying we are in an emergency in our opinion and somebody has to count up the score.

Mr. KELLY. It would be helpful to the committee we would think if the Department of Agriculture were asked to comment on our paper. I would like to see the explanation.

Mr. SCHAUS. These figures are not our figures, they are those of the Department of Agriculture, except the ones we have explained, the carryover and the unidentified, which they have not identified and are not able to.

If they had done what we asked them to do or suggested they do, it would be identified, in my opinion, in 2 weeks, to find out whether or not it is coming back to the domestic market.

Secretary Butz assures us it is coming back into this economy. I say how can anyone assure us this unidentified wheat is coming back into our economy. Now shall I go on?

Senator STEVENSON. Yes.

Mr. SCHAUS. The USDA has indicated disagreement with the Department of Commerce export statistics on the basis that unidentified sales might find their way back into this country. Yet the above calculated deficit is twice the total sales unidentified as to ultimate destination. Even if we were to assume, as does Secretary Butz, that 200 million of the unidentified bushels in the statistics is "water," in that it is in the hands of international speculators which is available for domestic consumption if we are high bidder we are still short 400 million bushels. Even if we ignore anticipated demand of impoverished nations who have not yet obtained sufficient commitments for our exports and reduce the deficit another 250 million bushels, we are still short 150 million bushels. If this country could get by with 100 million bushels in the pipeline until the new crop is harvested, which IBA believes cannot be done, we might make it. While wheat crops are finished this year basically until 1974, we will get some wheat at the end of May, and early in June and that wheat is not good for bread. It does not have a high enough protein content and so forth. Another caution is that we are having trouble now with the carryover wheat, because we do not have enough for a blend. So when you are baking, in our type of bakeries, large wholesale bakeries, we are now finding problems in bread production all around the country. Because we do not have enough carryover, some of it is junk, for feeds and other things that cannot be put into high class bakery products. You can also conclude, when you break it down, that rye flour is almost out now, no matter what the Department of Agriculture does. Of course durum wheat which is for spaghetti and noodles, is also very scarce.

We are not here to represent the paste industries but these manufactures are going to be in bad shape.

It has been argued that higher prices act as a market rationing mechanism which may decrease domestic of export demand. There is the further anticipation that some purchasing countries in anticipation of export controls have already obtained commitments for maximum rather than minimum needs. There is some hope that better production than is allowed for in the official statistics in countries such as Canada and Australia may increase worldwide supply some 150 million bushels, enough to cover uncalculated shortages elsewhere.

Secretary Butz has been debating the parameters of predicted worldwide shortage but the stark fact remains that Argentina, Australia, and the ECC have curtailed wheat exports and Canada is rationing its wheat and has already taken drastic steps including outright subsidies to protect Canada's domestic requirements and the Canadian consumer.

In balancing the benefits and cost of licensing exports the uncertainty of the situation itself is one of the strongest arguments for their immediate implementation.

For example, if by the time it becomes absolutely and irrefutably clear to the administration that export controls must be imposed, most shipments may have been completed to certain, possibly more affluent countries. The choices for the administration may be much more difficult next February when either people in underprivileged countries like Bangladesh must starve or the bread racks of this Nation must be bare.

Domestic needs must be evaluated with the following factors in mind. Wheat must be transported, milled, and shipped before it can be baked. In addition to sufficient total supplies, there must be adequate wheat available by category. Supplies of some classes of wheat such as durum and rye are already exhausted. The wheat shortage has already caused improper blending of old and new wheat with a resulting poor quality bread in some markets. For example, the Garner Baking Co., with plants in Wisconsin, had just come off 2 weeks of such bread when the bread would break down after 24 hours and they are the top bakers in that area. Numerous other wholesale bakeries belonging to the three cooperatives testifying here today have had similar experiences.

Nor can the baker even commit for his wheat in advance. There are few if any bakers who can obtain more than a monthly supply of flour from the millers. Furthermore, neither the baker nor the miller is capable of hedging for the year's supply.

There has never been such a requirement nor the evolution of financing such a monumental task for the independent businessmen. In one of the discussions we had with the Department of Agriculture, they say, why don't you go out and buy all of the wheat and get in competition. I say how can we do that, we are bakers, and we have been buying the same way for 40 years and the antitrust laws will not allow the millers to get together to do that type of thing. Then how does any group compete with a country like Red China or Japan or Russia. There is no way they can compete for that kind of a market, under our present setup.

IBA does not believe the present problem is explained away by asserting that Government does not have inventory responsibility for millers' wheat needs. Individual bakers or millers lack the financial capability of effectively competing with foreign governments and cartels; any attempt at joint action of a magnitude even remotely approaching meaningful financial muscle would place the participants in serious jeopardy of violating our antitrust laws.

An article by Professor Scruben at Kansas State University reported in September 11, 1973, Milling and Baking News, page 13, vividly describes the impossibility of the situation for the U.S. businessman. Professor Schruben explains that during periods of worldwide grain shortages a free market in grains cannot properly serve a domestic economy and also protect U.S. national interests because most of the worldwide grain buying is by State monopolies. A copy of that is being submitted to the committee herewith.

We should recognize that decisive action setting up an export licensing system as the means to preserve minimum domestic needs will also assure the ability to allocate our finite supplies in an orderly and reasonable manner.

There have been questions as to the moral issue that has been brought up by the White House, and we need to honor our contracts and that economics dictate we need preserve our overseas customers and markets. However, these seem to IBA makeweight arguments since morality and national priorities would seem to favor the needs of our own citizens, and more impoverished nations without adequate food supply or commitments for our wheat exports.

Licensing of exports now is the logical and expected step. By failing to act promptly earlier this year the United States found it necessary to impose a last-minute embargo on soybeans. We believe most countries anticipate the United States will act to control farm exports as the rest of the world had done. Our entire national commitment to free enterprise and allowing the market to set the price for goods is based on the accurate assumption that customers buy based upon price, quality, and terms. In other words, other countries will continue to take the best deal available, regardless of who is the exporting country. It seems to IBA, therefore, to the extent that the United States assumes unilateral self-imposed obligations not required by bilateral treaty we assume an unnecessary and in in this case most weighty burden. We believe the United States should promote world trade and export our surplus goods to assist our balance of international payments.

However, we believe the United States should assure its citizens of sufficient food supplies, particularly of such an item as bread, the staff of life.

We suggest the most appropriate standard which should become the unequivocal policy pronouncement of the administration and the Congress is that the United States shall assure itself of its domestic needs plus a minimally necessary carryover of its agricultural products and has to sell all its remaining agricultural surplus to other nations of the world.

We understand the world is short of food and they have to buy our products or starve.

The primary thrust of our testimony has been concerned with the availability of wheat to the baker and bread to the consumer. We see a strong possibility of this country without bread next spring if nothing is done.

However, closely interrelated to the supply question is the price of wheat. The IBA position paper of September 4, 1973, at page 3, indicates that there has been a 300 percent increase in the price of flour since the Russian wheat deal of last year. World demand and the increase in the price of wheat have affected all agricultural products. When the price of the grain used for feed went up the price of beef, chicken, pork, eggs, milk, butter, lard, shortening, et cetera went up.

A 23-percent increase in raw agricultural costs in August of 1973 was accompanied by price increases of about 7 cents a loaf of bread in many parts of the United States.

When we were working on the wheat certificate program, we were worrying about 1 cent of a 1½-cents increase. Purely on the basis of passing on increases in now regulated costs from June 1 to mid-August we were forced to increase bread prices to the bakers 5, 6, 7 cents a loaf. It never happened before in the history of the United States at least to my knowledge. Certainly not in my lifetime. And we will be forced into another comparable increase because we have not passed on all of the costs we have had in other cost areas besides wheat. In addition, we have not passed on all of the wheat costs because we had wheat cost increases before June 1, 1973.

Bread is still the staff of life, particularly for those who can least afford inflation.

It is anticipated that congressional authorization of export licensing and an administration announcement that it is Government policy to assure domestic needs of agriculture products would, by themselves have an extremely beneficial effect on holding down or stabilizing the price of wheat which is already up well over 300 percent this past year. We mention the problem of nutrition, too, because of the fact that the American public, and we are all conscious that too many people in our great country are eating what we call empty calory foods. The youngsters rely on snacks. Bread is basic and is one of the most nutritional products. One of the foods the poorer people must depend on is bread. And, if bread gets to the point where they are going to have to worry whether they have one slice or two, in a sandwich, this will be a nutritional problem as well as a hunger problem. Can you imagine having a bologna sandwich without any bread at all?

Conclusion. We respectfully suggest that there is a serious inflationary problem prompted by abnormal foreign demand for wheat and that we are experiencing an excessive drain of our scarce materials. Wheat is scarce and now is the time for Congress to provide the mechanism for orderly export marketing by license. The administration should simultaneously affirm by policy announcement its commitment to assure adequate reserves for domestic needs including a minimum reasonable carryover. This will assure availability and have a beneficial effect in counteracting the severe inflationary pressure on the cost of commodities to the American food manufacturer and to the consumer. Now is the time to act. By January there will be so many shipments of wheat that the potential shortage at that time may be alleviated only by choosing between cruel and unacceptable alternatives.

We thank the committee for its time and patience and urge immediate passage of an export licensing act effective to govern the wheat supplies now on hand and to be harvested. A bill applicable to commodities harvested in 1974, and subsequent years is just 1 year too late.

We certainly think very highly of the Javits-Stevenson bill. We feel, however, that that bill would be a year late and that something should be done now. We are not legislators, we are just bakers who are trying to save a situation, to amend it or do something with it so that something can happen now to be sure that we have wheat and flour for next year which will not be replenished by any new crops until the summer of 1974.

Now, if I may, Mr. Chairman, if you would like to hear one or two words from any of the other people.

Senator STEVENSON. I would just like to point out that something could happen right now without any further legislation, if the facts are as you suggest they are, if foreign demand is creating the scarceness and the high prices you have described, the administration has the authority now to impose export controls.

Mr. KELLY. If I could speak to that, Senator, we agree, we think the Export Administration Act of 1969 gives the President authority. But unfortunately, he doesn't seem to think so. He has come to Congress and asked Congress to give him a new law, he doesn't seem to feel the present act of 1969 gives him adequate authority.

So we think if something like S. 2411 were to pass, it would make it clear the President does have the authority.

Senator STEVENSON. The administration acted in connection with soybeans and you heard this morning the administration representative say that even given the broad authority, they wouldn't use it right now, they want it on a standby basis.

Senator JOHNSTON. If the Senator will yield, I think there is ample evidence that if he believes there is a scarcity, and if he believes the demand is abnormal, foreign demand, he certainly has that authority and they have exercised it on how many agricultural commodities——

Senator STEVENSON. On soybeans.

Senator JOHNSTON. More than soybeans.

Mr. ROSENTHAL. Soybeans, cottonseed oil, things of that nature, the facts of the matter is that the track records of the Department of Agriculture in their prosecution has not been too good, since as far back as the Russian wheat deal.

We were in favor of that deal, we felt that this country should sell its surplus, earn foreign exchange, help to feed the rest of the world. We as bakers are in full sympathy with that principle. We are not in full sympathy with the principle that takes the entire surplus out of this country, not leaving an adequate reserve, and then trying to put out the fire after the fire has started.

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Mr. Butz could have easily projected the export of soybeans, they certainly could figure out how much soybeans is being shipped each week, they certainly have much better figures this year than they had last year. They know, for instance, the week before last, we shipped the greatest quantity of wheat out of this country that we have ever shipped in our history, 35.8 million bushels in 1 week.

Now, we have between now and the end of June, when we start to harvest a fair amount of our 1974 crop, we have 8 months. If we would continue at that rate of shipment, we would be shipping out of this country approximately 140 million bushels a month. They have already shipped out close to 400 million bushels this crop year.

Now, if you multiply 140 times 8, you come up with 1 billion, 100-odd million, plus the 400 million that were already shipped, and you have a total export shipment of 1½ billion bushels. And they are still talking out 1.1.

Completely wrong, in our belief. They are not facing the facts and they are going to wake up at the last minute and Mr. Butz is going to do what he did with the soybeans. Somewhere around February or March, he will probably have to impose an embargo and abrogate everybody's contracts, and that would be about the worst thing we could do.

The other question that comes up, there are three basic points of the administration. They say, No. 1: We have to earn foreign exchange. We are in total agreement with that. But we think our first obligation is to feed the people of the United States. The second point they come up with is that we have built up these customers for our agricultural products over the last many years, and we should retain these customers and let them know that we are a good source of supply.

Theoretically, that sounds fine. But it is our opinion that these people buy from us for three reasons: No. 1, our price is as good as anybody else's, or better; No. 2, our terms are better than anybody else's; we gave the Russians 6 years to pay for the wheat they got last year. Nobody else sells wheat and gives somebody 6 years to pay for it after they have eaten it; and No. 3, is that this is the only place in the world right now that these crops are available and as long as we have good growing conditions, it is the only place in the world for the next 2 or 3 years that these crops will be available.

I believe this morning Mr. Johnston, you said that the Japanese might grow their own soybeans. If they could grow their own soybeans now, they wouldn't be buying them here. They like to export Toyotas, Datsuns, those are the things they can make. They have no land to grow soybeans. The only place in the world besides the United States and Brazil, which is starting to grow a fair soybean crop, is China; they are the three great soybean producers of the world.

Now, that doesn't mean 10 years from now, somebody else might not be a great soybean producer. But right now, we are the ones who have the crops available. We don't think there is enough available. But we are the ones who have the crops available and we are the ones that offer it at the best price and sometimes at no price.

We are about to forgive India $2 billion she owes us for what we have been giving her over the years. We are not complaining about that, either. We had to help those people. We have compassion for people.

Mr. KETT. My name is Robert Kett, president of W. E. Long Co., in Chicago, Ill. I would just like to emphasize further the critical situation on the wheat supply.

In the September 21 issue of the Milling and Bakers News, a highly regarded industrial publication, they agree the situation is critical, and they will be out of wheat by the spring of 1974.

I quote:

> Inspections exports—in week ending September 14, 1973, were record 37 million bushels, bringing an aggregate outgo since July 1 to 303 million bushels, or almost twice the 156 million bushels exported by the same date in 1974. In order not to exceed USDA estimates of a 1.1 bushel export, weekly averages would have to dip below 19 million bushels. According to the Commerce Department data, undelivered export sales to September 7th were 1,008.5 million bushels, a level that would be attained by weekly exports averaging 25 million bushels, well above the 19-million-bushel average needed to meet the USDA estimate of exports. Such shipments would draw carryover next July 1 to well below 100 million bushels—an unacceptable level.

So, that I think supports the contention of a critical supply of wheat. I have turned in this paper for the record.

Senator STEVENSON. It will be entered into the record.

[Statement follows:]

THE W. E. LONG CO.

INDEPENDENT BAKERS' COOPERATIVE

309 W. WASHINGTON ST. • CHICAGO, ILLINOIS 60606 • 312/726-4606

PRESENTATION TO THE UNITED STATES SENATE
BANKING AND CURRENCY COMMITTEE

SEPTEMBER 26, 1973

BY ROBERT E. KETT - PRESIDENT

W. E. LONG CO., INDEPENDENT BAKERS' COOPERATIVE

Sept. 26, 1973

BANKING AND CURRENCY COMMITTEE

May I introduce myself? I am Robert E. Kett, President of the W. E. Long Co. - I.B.C., Chicago, Illinois. We appreciate the opportunity to apprise the committee of the critical situation facing the United States as regards the supply of wheat and other grain commodities and the baking industry in particular, which produces the basic staple in the American diet - bread.

The W. E. Long Co. is a Cooperative consisting of 70 members operating 82 wholesale bakeries located within the continental United States, Hawaii, Canada and the Commonwealth of Puerto Rico. Sales of our member plants amount to 365 million dollars annually.

Our members produce 1.265 billion pounds of bread, rolls and other bread type products annually. Just to give you an idea of how important wheat is to the baking industry, I would like to give you some statistics on ingredients used in the production of bread and bread products:

696 million pounds of flour (milled from 15.4 million bushels of wheat)

10 million pounds of milk or milk substitutes

49 million pounds of sugar

18 million pounds of shortening

23 million pounds of yeast and yeast food

14 million pounds of salt

Although the policy of our members has always been to produce the highest quality products possible at the lowest possible price, the short supply of many of the ingredients listed above have resulted in higher bread prices for the consumer. Recent advances in bread prices have ranged from 7 to 10 cents per loaf. We anticipate prices moving even higher. The rapid price movement has resulted in a change in our pricing methods. Where normally bread packages are pre-priced, as prices continue to escalate, our members now manually affix price stickers on the package as new prices are so frequently announced.

Our immediate concern is wheat - both its price and availability for baker flour needs. Our position is: the American consumer should be taken care of first.

1. Domestic consumption needs a minimum of 1.1 billion bushels of wheat; 800 million bushels for food, feed and seed; and 300 million bushels as carry-over to keep the pipe-line filled. The remaining balance then can be exported.
2. The balance available for export should then be allocated among the foreign countries in an equitable manner.
3. This allocation should include the licensing of sales of wheat to the foreign nations.
4. That we support the passage of Senate Bill No. 2411 sponsored by Senators Javits and Stevenson, except that the bill should be changed to be applicable to the fiscal year July 1973 through July 1974, rather than the calendar year 1974 as now written in the bill.

In the opinion of most specialists on wheat, there is a critical supply of wheat to meet both domestic and export needs (see attached exhibits). Although our current position reflects a record wheat crop, the actual available supply is at a three-year low because of the reduction in carry-over, due in large measure to the much greater than normal export demand in the 1972-73 crop year.

Sept. 26, 1973
Banking and Currency Committee

We are now facing the reality of supplying a world market for wheat. Both Russia and China have made a decision to give their 8 billion people more protein. The demand for wheat will, we believe, continue to be high in the years to come. Certainly we want to be able to keep our commitments to the nations who need our wheat. In order to meet our domestic needs and to be sure we can supply the needy as well as the affluent nationsof the world, we need to control the supply of wheat through allocation and licensing of supply.

W. E. Long Co. member bakers are concerned whether or not there will be enough wheat left in the United States to permit normal milling operations for the end of the 1973-74 crop year, before the new crop becomes available. If their isn't, and the prospects are good there won't be, many of them will not be able to supply bread products to their customers. We will be a wealthy nation with an inadequate food supply.

If exports amount to only 1/2 of those of a year ago, indications are that export sales and shipments of wheat as of August 31 exceeds the amount estimated by the USDA as available for export and carry-over. The Milling & Bakers News, a highly regarded industry publication, agrees with us that the situation is critical, and that we will be out of wheat by the Spring of 1974. I quote: "Inspections (exports) in week ending September 14, 1973, were record 37 million bushels, bringing an aggregate out-go since July 1 to 303 million bushels or almost twice the 156 million bushels exported by the same date in 1974. In order not to exceed USDA estimates of a 1.1 billion bushel export, weekly averages would have to dip below 19 million bushels. According to the Commerce Department data, undelivered export sales to September 7th were 1,088.5 million bushels, a level that would be attained by weekly exports averaging 25

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million bushels, well above the 19 million bushel average needed to meet the USDA estimate of exports. Such shipments would draw carryover next July 1 to well below 100 million bushels - an unacceptable level.

Another problem facing our wheat supply is the shortage of fertilizer. The situation has been aggravated by the prospective huge expansion in winter wheat acreage. On top of this, phosphate fertilizer is selling in the export market for over $100.00 a ton, while the domestic price has been frozen by price regulations at $70.00.

A shortage of wheat due to any cause will ultimately mean that the American consumer will be unable to purchase her bread requirements. Bread is so basic in the American diet that, whether a shortage or an abnormally high price exists, a severe public reprocussion would result.

We respectfully urge this committee to immediately consider Senate Bill No. 2411 with the change to the fiscal crop year, July 1, 1973 through July 1974.

USDA PROJECTIONS OF SUPPLY & DEMAND FOR WHEAT IN 1973-74 WITH COMPARISONS, IN MILLIONS OF BUSHELS (REVISED AS OF JULY 31, 1973).

	1973-74	1972-73	1971-72
SUPPLY:			
Carryover	428	863	731
Crop	1,749	1,545	1,618
Imports	1	1	1
Supply Total:	2,178	2,409	2,350
DISAPPEARANCE, DOMESTIC:			
Food	530	529	526
Seed	75	66	63
Feed	175	201	266
Total:	780	796	855
EXPORTS:	1,100	1,185	632
ENDING CARRYOVER:	298	428	863

UNLESS EXPORT CONTROLS ARE INSTITUTED, SOME KNOWLEDGEABLE MARKET ANALYSTS PREDICT A MUCH MORE SERIOUS PICTURE OF THE WHEAT SITUATION THAN GOVERNMENT FIGURES INDICATE.

WHEAT

(1973-74 Crop Year)

	IN MILLIONS OF BUSHELS
EXPORTS:	
Commitments, shipped and unshipped, on July 13, 1973	989
Sales reported since July 13, 1973	43
Estimated wheat exports as flour	60
Offers (tenders) to buy from, India, Brazil, Argentina, & Egypt	270
Possible total exports:	1,362
DOMESTIC DISAPPEARANCE:	
USDA estimate - food, feed, seed	780
Possible total disappearance:	2,142
TOTAL SUPPLY (USDA figures):	2,178
POSSIBLE TOTAL DISAPPEARANCE:	2,142
POSSIBLE CARRYOVER, JULY 1, 1974	36

Export wheat transactions for 1973-74 crop year reach 1,357.8 million bus, up 29.8 million in week

WASHINGTON, Sept. 17.—For the 1973-74 crop year, wheat export sales amounted to 1,357.8 million bus, excluding products, as of Aug. 31, comprised of 243.8 million bus shipped by that date and undelivered sales of 1,114 million. Undelivered wheat sales were reported last week by the Department of Agriculture from data compiled by the Commerce Department. The aggregate of 1,357.8 million bus represents an increase of 29.8 million bus over a week earlier.

Included in the report of undelivered sales are 820.3 million bus to identified destinations and 293.7 million unidentified.

Listed below are undelivered export wheat commitments by class for 1973-74 to Aug. 31 and shipments to same date, in millions of bus (shipments shown are the July-August inspections which vary slightly from weekly reports because of the manner in which wheat shipped for storage in Canada are listed):

Destination	All Wheat	Hard Red Winter	Soft Red Winter	Hard Red Spring	White	Durum	Mixed
European Community	97.3	30.6	-0-	51.3	.9	11.5	-0-
Other West Europe	10.2	6.0	1.3	2.2	-0-	.6	-0-
Eastern Europe	20.3	20.3	-0-	-0-	-0-	-0-	-0-
U.S.S.R.	93.8	93.8	-0-	-0-	-0-	-0-	-0-
Japan	101.1	40.6	1.3	14.7	43.2	1.3	-0-
Taiwan	4.0	2.0	-0-	1.3	.7	-0-	-0-
People's Rep. of China	105.3	105.3	-0-	-0-	-0-	-0-	-0-
India	38.1	38.1	-0-	-0-	-0-	-0-	-0-
Other Asia and Oceania	111.0	72.4	.3	9.9	28.4	-0-	-0-
Africa	114.4	84.7	-0-	8.6	-0-	21.1	-0-
Western Hemisphere	124.8	80.5	1.9	33.8	1.9	3.4	3.3
Identified undelivered	820.3	574.3	4.8	124.8	75.1	37.9	3.3
Unidentified undelivered	293.7	202.5	5.0	36.6	9.3	40.4	-0-
Total undelivered	1,114.0	776.8	9.8	161.4	84.1	78.3	3.3
Shipments to 8/31	243.8	160.4	16.0	42.2	17.5	6.8	.8
Total sales and shipments	1,357.8	937.2	25.8	203.6	101.9	85.1	4.1

Following is a listing of undelivered sales as of Aug. 31 for three crop years, with changes from previous week's report in parentheses, including unidentified destinations:

	Year ending June 30					
	1972-73		1973.74		1974-75	
			(1,000 metric tons)			
Wheat, total	-0-	(...)	30,319	(—357)	822	(— 49)
Hard red winter	-0-	(...)	21,140	(—338)	522	(— 46)
Soft red winter	-0-	(...)	265	(— 49)	50	(+ 46)
Hard red spring	-0-	(...)	4,397	(+ 17)	205	(— 49)
White	-0-	(...)	2,299	(— 17)	9	(...)
Durum	-0-	(...)	2,128	(+ 29)	37	(...)
Mixed	-0-	(...)	90	(...)	-0-	(...)
Barley	-0-	(...)	1,894	(— 81)	-0-	(...)
Rye	-0-	(...)	439	(+ 64)	-0-	(...)
Oats	-0-	(...)	751	(— 62)	-0-	(...)
	Year ending July 31					
Rice	-0-	(...)	791	(+ 94)	4	(...)
	Year ending Aug.31					
Soybeans	349	(—212)	17,488	(+541)	581	(+146)
	Year ending Sept. 30					
Corn	1,634	(—943)	32,196	(+776)	593	(+182)
Grain sorghum	1,046	(—109)	5,159	(— 7)	-0-	(...)
Soybean cake and meal	1,167	(—156)	6,804	(+117)	219	(+ 7)
Cottonseed cake and meal	4	(— 3)	21	(+ 1)	-0-	(...)

Milling & Baking News
September 18, 1973

(Sept. 24, 1973: Excerpted from Sept. 21, 1973 article from "Milling & Baking News" reprint entitled: The Week's Flour Business-Confidential)

Startling statistic in first of a series of supply and demand outlook reviews to be issued by U.S.D.A. was slight increase in estimate of wheat carryover next July 1--up to 301 million bus from previous estimate of 298 million. Expectation had been for sizable reduction in view of record pace of export clearances. U.S.D.A. estimate of exports remains at 1.1 billion bus but forecast of domestic disappearance is reduced from 780 million to 755 million bus. Optimism over supplies extends into 1974-75 statistics. For 1974 crop, increase of 11% is forecast in harvested acreage, from 53.7 million to 58.1 million. Yield per acre is forecast at 32.6 bus, against 32.2 in 1973, and production at 1,894 million bus, against 1,727 million. Another increase in carryover is predicted for July 1, 1975, up to 405 million bus.

Less encouraging evaluation of wheat supplies is gleaned from export data. Inspections in week ended Sept. 14 were record 37,490,000 bus, bringing aggregate outgo since July 1 to 303,496,000 bus, or almost twice the 156,044,000 bus exported by same date in 1972. In order not to exceed U.S.D.A. estimate of 1.1 billion bus, weekly average would have to dip below 19 million bus. According to Commerce Department data, undelivered export sales to Sept. 7 were 1,088.5 million bus, a level that would be attained by weekly clearances averaging 25 million bus. Such shipments would draw carryover next July 1 to well below 100 million bus, an unacceptable level.

MILLERS'
NATIONAL
FEDERATION
14 East Jackson Boulevard
Chicago, Illinois 60604

PROPOSAL FOR ASSURING ADEQUATE DOMESTIC WHEAT SUPPLIES

The balance between world food demand and world food supplies is causing growing concern in this country and throughout the world. This is certainly true of wheat. During the past year a very nominal reduction from the previous year--less than 5 percent--in the world crop has resulted in United States domestic wheat supplies being reduced to low levels. This has resulted in very sharp increases in domestic prices of all foods processed from wheat.

As a result of this continuing increase in world demand, domestic carry-over stocks of wheat on July 1 this year will be reduced to around 400 million bushels. This is less than 50 percent of the stocks just 12 months ago. There is little to indicate that domestic carry-over stocks of wheat will change significantly during the coming year despite the fact that the United States expects to harvest a record crop.

Domestic stocks are now at a point where any substantial unexpected sale into export could cause a near total depletion of stocks and a shortage of wheat-product foods in this country. Even a small reduction would result in even higher prices for wheat-food products. At present there is no program in operation that would prevent this from happening.

It is our belief that such a program is needed, one which would result in a minimum of interference in the market place when carry-over stocks are expected to be at high levels but which would come into operation automatically and in ample time to prevent depletion of stocks to a danger level.

It is the recommendation of the Millers' National Federation that a program be developed immediately that would assure adequate supplies of wheat for domestic purposes in the years ahead. Such a program must be considered in two phases:

1. In light of the immediate problem where stocks have been reduced to low levels, the government owns no wheat, prices are far above support levels, and a crisis situation could develop quickly with unexpected export sales.

2. A program that would be operative if and when surplus supplies again come into the picture.

A. PROPOSED PROGRAM TO BE OPERATIVE IMMEDIATELY:

The Secretary of Agriculture should have the authority to require, either on a voluntary basis or a compulsory basis, the reporting of all export sales of wheat and flour within five days of the time of sale. This information would be made public not more than five market days after the information is received by the USDA.

At any time the Secretary of Agriculture determines that prospective yearend carry-over stocks of wheat will be below 600 million bushels, all exporters of wheat and flour would be required to notify the USDA of any sales made for export within 24 hours of the time of actual sale. Here again, this information would be made public not more than five market days after the information is received by the USDA.

At any time the Secretary of Agriculture determines that further export sales might reduce carry-over stocks to below 350 million bushels, he would immediately require prior approval of any new sales of wheat or flour for export. Through an export licensing program he would limit exports so as to assure carry-over stocks being maintained at 350 million bushels or more. The Secretary should also have authority to allocate remaining sales between sellers or between countries of destination.

The Secretary of Agriculture should also have authority to follow the above procedure to assure necessary carry-over stocks for each class of wheat. Proper minimum carry-over stocks for each class of wheat would be determined by the Secretary.

B. PROPOSED PROGRAM TO BE OPERATIVE IF AND WHEN SURPLUSES AGAIN DEVELOP AND PRICES FALL TO OR BELOW SUPPORT LEVELS:

There seems little likelihood that this situation will occur during the next 12 to 18 months. However, it is desirable to have some program in effect if and when these surplus conditions return so that it could be effective quickly.

The Secretary of Agriculture would take steps necessary to assure a carry-over equal to at least one year's domestic needs for food and seed plus a nominal amount for domestic feed needs. These stocks should include all wheat held in private hands plus any government-owned stocks. The private trade should be encouraged to own and handle as much of this carryover stock as is economically feasible.

Proper provision should be spelled out as to what levels the Secretary could sell government-owned stocks back into the market place. One approach might be not to permit any sales at less than 115 percent of the current crop loan level plus reasonable carrying charges. It probably would be desirable to have this percent spread moved up to 125 percent or more if the Secretary of Agriculture estimates total carry-over stocks at the end of the year would be less than 600 million bushels.

Mr. ROSENTHAL. Mr. Stevenson, we would be very happy if you or Mr. Johnston or any members of this committee could arrange a meeting with Mr. Butz with its members of this group and go over these figures. We think we can take their own figures and make them eat them.

Senator STEVENSON. I would be glad to submit this position paper to the Department for its comments and share the response with you.

Mr. ROSENTHAL. If a meeting could be arranged, I think it might be very beneficial.

Mr. SCHAUS. Mr. Reese would like to make a statement.

Mr. REESE. I am chief executive officer of the G. Heilman Brewing Co., Bakery Division, in Wisconsin. I would like to make one observation about this carryover figure, because I think to a layman, carryover is something that it put aside for emergency.

This is not true, because in our business, we have to use about 50 percent old crop wheat well into October. In other words, to do that over the country, you just have to have a lot of the old crop on hand. And it has to be baking quality wheat.

So if you think like 298 million bushels is something that we can reach for if we need it, that is not carryover. The carryover is a vital necessity to use to feed into the new crop, because the new crop will not make bread for several months after the harvest.

So, this is one important factor. I think another thing, that I wonder if everybody has really paid enough attention to, and that is the dollar devaluation situation. Now, I didn't hear this morning's testimony, but as a businessman, and I run a fair-sized operation, I see shortages, not only in wheat, but I see them in many, many, basic raw materials.

The margin between surplus and scarcity in this country is really a very small thing. Now, we have got a couple of factors that I think this committee should pay a lot of attention to.

One is those billion-plus people that are now our friends and are now in our economic orbit. We haven't evaluated the impact of that on our food supply sufficiently in my opinion.

The second thing that I think is very critical is that we have got this enormous stock of dollars overseas, that has grown over the years from our welfare programs to help other nations, from our wars, what have you, and it is simply not possible for us to soak up those dollars in 1 or 2 years or 5 years. And yet, they are coming in here now with the margin rates and they are coming in here awfully heavy and soaking up the basic raw food stocks of our country.

I just got back from quite an extensive trip in February through the Far East, and I was tremendously impressed with the relative prosperity of the nations over there. And they all want to eat better.

I think all of this has an impact that did not exist 2 years ago on the United States. I think it behooves the Senate and this committee to take a real hard look at this situation, because I see a lot of trouble ahead. And I see it in our own industry, and we are not exaggerating, gentlemen.

I personally feel from talking to a lot of people who are skilled in the grain business that we are looking at some extreme scarcities in flour, in late March and early April. That is the way it looks to me. Thank you, Senator.

The CHAIRMAN. Senator Johnston made an observation a while ago about the Japanese growing soybeans. He is right. Devaluation of the dollar has devalued the dollar in the last 2 years by about 35 percent and those devaluations have not only made our exports of food, grains, including wheat, cheap; they have also made land in the United States cheap.

The Japanese are coming in now to grow soybeans, but they are going to grow soybeans right here in the United States, as a means of assuring themselves of a continuing supply of soybeans.

Mr. SCHAUS. They buy elevators for wheat.

Senator STEVENSON. Those are all points you mentioned. We are very concerned about them and in some cases, we have plans for more indepth studies.

Mr. REESE. We have an emergency in our opinion. And then we have a long-term problem.

Thank you.

Mr. SCHAUS. We might say, too, Mr. Chairman, we are not pleading for industry poverty, but this industry has been through a terrific 1½ years, the baking industry. As you know, it went down the drain as far as profits were concerned. And it has only slightly recovered some of its increased costs. The bakery industry is still in the middle of passing on tremendous price increases that were not passed on in stage A, and stage B the regulations will still not bring the industry back to normal profits.

So, we are not an industry making a lot of money, we have been in disaster; 100 bakeries closed in the past year and a quarter. We refer to large wholesale bakeries; you don't replace bakeries of this kind.

Senator JOHNSTON. That was because of price controls, not because of scarcity.

Mr. SCHAUS. Yes, that is right. It is only now we are worrying about scarcity. One led to the other. Last year, the administration was concerned about inflation, keeping it 3 or 4 percent levels. Apparently, they are no longer concerned about inflation at this time. Where we are going to go from now on in, is anybody's guess.

Senator STEVENSON. Senator Johnston, do you have any further questions?

Senator JOHNSTON. Yes. As I hear your testimony, all of you are saying that there's no question that wheat is scarce right now, and there is an abnormal foreign demand. Is that correct?

Mr. ROSENTHAL. That is correct.

Senator JOHNSTON. That is all you need under anybody's interpretation of the present export act. You don't have to have further authority to do that, now. The Government may disagree with your figures, so scarcity or as to demand, but if they agree with that, I would think they would also agree with the base by which they calculate the domestic need and the domestic crop under the bill which you advocate.

Am I correct on that?

Mr. KELLY. Senator, I think we agree with what you are saying to an extent. But we had the distinct impression when the Government witnesses were testifying that they felt that you had to almost have shipments out of the country before you had the scarcity required under the Export Administration Act of 1969.

In other words, just adding up the figures and saying we are going to run out in 4 months doesn't seem to be enough for them. That is not how we think the act should be interpreted. If that is correct, then the existing law is not sufficient.

Senator JOHNSTON. It occurs to me that we need to strengthen the present procedures the administration invoked after the Russian wheat deal, whereby you have the agency that monitors all of the orders of foreign products, wheat particularly. Couldn't we have the same kind of situation with any intended orders you would have to register those orders with the agency and have a delaying period before you actually executed on the orders? Wouldn't that give you the lead time to estimate——

Mr. ROSENTHAL. Delaying time of shipment, not a delaying time of the purchase. But an exporter goes into the commodity market and buys so many contracts of wheat, he owns it as of that day, you can't delay that order; you put the order in that you want to buy at this price, you buy it, you own it.

Now, they should be able to delay the shipment.

Senator JOHNSTON. I am not talking about the shipment. Once the sale is made, it is complete. I am talking about in advance of making that purchase.

Mr. ROSENTHAL. What we are saying is putting the shoe on the other foot, doing it the other way around. We are saying in support of the Javits-Stevenson bill, we are saying that the first requirement should be to satisfy our own needs, and then the Secretary of Agriculture could ship or sell or allow to be sold or allow to be exported the entire surplus, beyond our own needs.

Now, it is questionable whether our own needs are 760 million bushels or 800 million bushels, there is a difference of 40 million bushels we might have a discrepancy or disagreement in. But there is no argument that we need a minimum of 300 million bushel carryover. Mr. Brunthaver said that this morning.

Senator JOHNSTON. You talk about the abnormal foreign demand. Are these contracts now made and the purchases now made or you fear the purchases will be made in the future?

Mr. ROSENTHAL. According to the Department of Commerce figures for export, there has been sold 1,442 million bushels of wheat. The difference between the Department of Commerce figures and the Department of Agriculture figures is what Mr. Butz calls unidentified sales.

What he means by unidentified sales, sales that were made but the final destinations of where the product is going to has not been made public. This he terms unidentified sales. And this he said is sales that are not really sales, and therefore, will come back into this market because they are speculative.

But if you take the Department of Agriculture figures, and even ignore the unidentified sales, you will have over 1,100 million bushels of wheat already sold for export. It has not been exported yet, but has been sold for export.

They can't physically ship it that fast in any case.

Senator JOHNSTON. I don't understand why the price mechanism wouldn't keep an adequate supply here.

Mr. ROSENTHAL. Well, the cheap dollars that the foreign governments own today with the balance of payments and the devaluation. If they had a dollar last year——

Senator JOHNSTON. I understand about devaluation. You are saying they are outbidding us, in fact.

Mr. ROSENTHAL. Yes.

Mr. KELLY. If I could just read one paragraph from an article submitted with our position paper, the first paragraph in "Milling and Baking," September 11, and it is Professor Schruben of Kansas State. He says:

> My thesis is that during periods of worldwide grain shortages, a free market in grains cannot properly serve a domestic and also protects U.S. national interests because most of the worldwide grain buying is done by State monopolies.

I think this is a very learned article, and I think the point being that we have foreign governments buying. The U.S. independent businessman, who is competing against them, cannot do so effectively.

With a shortage situation, the price mechanism does not seem to work. It is not working at this time, we suggest.

Senator JOHNSTON. It certainly didn't work in the Russian wheat deal, because we didn't know what they were about, apparently we didn't know, and they bought all of that very secretly. I agree the price mechanism didn't work at that time. But does that mean there is anything basically wrong with the price mechanism, or does that mean we need better to monitor the activities of foreign countries, to be able to anticipate their activity and to prevent them from buying up such a large percentage secretly, in effect?

Mr. KELLY. If it is not secretly, it is still a problem. You are getting into a difference between the short-term emergency situation and the long term situation.

We say the short term has to be solved by something like S. 2411. Over the long run, I think various alternatives are possible. One is the market mechanisms be allowed to work, but that there be a mass pooling, in effect, a domestic cartel to compete with foreign governments.

Another possibility would be the approach taken by Canada, where they have assured its domestic supply and it is only exporting its excess. Canada has gone one step further than we think is necessary, they have assured the domestic supply at $3.25, and they are paying $1.75 subsidy for the domestic use of wheat.

Senator JOHNSTON. What do you see as the long-term capacity of this country to produce wheat?

Mr. ROSENTHAL. We are not experts on that, and we don't pretend to be. What we hear the experts saying is the United States seems to be able to supply the wheat.

Senator JOHNSTON. How about the acres that were set aside that were made available?

Mr. ROSENTHAL. There was in the set-aside program 60 million acres last year in——

Senator JOHNSTON. In wheat?

Mr. ROSENTHAL. No, in all crops. I believe 60 million acres in all crops. Now, when we were down here in December and we had a meeting with Mr. Weir of the Department of Agriculture, at that meeting he told us the Department had released a lot of additional acreage, the farmers were planting fencepost to fencepost, he had flown over the farms and they were planting all over the place, and there would be a lot of wheat available.

And we found out, although he said this, and I believe he meant it, it didn't quite work out that way. When Secretary Butz came back from Russia and they had made this tremendous wheat deal which was in July 1972, that would have been the time for us to tell the farmers to go out and plant all you can, because the winter wheat is planted by the end of October. We released the farmers to plant more land in November. The winter wheat, which is probably 75 to 80 percent of our total wheat production, had already been planted. So the release was——

Senator JOHNSTON. Too late for this year.

Mr. ROSENTHAL. It was just lip service, really. If I say to the farmer, "Go out and plant more wheat," and his fields are covered with snow and ice, he couldn't plant that wheat if he wanted to.

But it sounded good in the headlines.

Senator JOHNSTON. You have, in effect, an export tax here, isn't that correct?

Mr. KELLY. Senator, we don't feel competent to explain that part of the bill.

Senator JOHNSTON. It seems to me the provisions of this bill would fly in the face of the ban of export taxes in the Constitution.

Senator STEVENSON. You might want to respond to that by mentioning the old wheat certificate experience. It has in effect already been done and upheld constitutionally.

Mr. KELLY. That's right. I don't know who is familiar with the wheat certificate, but it was just repealed in the new Agriculture Act and it was 75 cents a bushel domestic tax.

Senator JOHNSTON. But that all went back to the wheat market and—I mean to the producer—and was sustained, as I recall, on the theory that it went back to the people to promote their own product.

Senator STEVENSON. This bill endeavors to do the same thing.

Senator JOHNSTON. Doesn't this go to some unrelated——

Senator STEVENSON. They are all related very carefully. But as we mentioned, I don't know whether Senator Johnston was here earlier, we expect to take that bill up in some depth later on. It hasn't been brought forward as an alternative to the proposals before us. The Export Administration Act expires on June 30, and before the expiration of the act the committee will hold more hearings, at which time we will consider the Javits-Stevenson proposal.

Senator JOHNSTON [presiding]. Let me just get a little better feel for this question of the capacity of this country to produce wheat. Is it your testimony that the country can respond to the demand for wheat, not this year but starting next year?

Mr. SCHAUS. Yes, it can, as long as—it is a question of supply and demand. We can produce a lot of wheat, and more wheat, and more wheat, but if you add another billion foreign people as our customers we may not be able to supply the world with wheat. If everybody stopped growing wheat tomorrow, and just the United States had wheat, we couldn't do it.

Now we can't predict whether Russia will have a good wheat crop next year or the year after, and whether China can do it.

So it is an unpredictable thing. The simple thing is we do know what we need now. We need 800 million bushels for the United States, we need 300 million for carryover, we need that, and we are going to use that much wheat.

Now, for the remainder, we can sell it to the Moon.

Senator JOHNSTON. I can appreciate the problem for this year, and your testimony certainly indicates it is acute, and it seems to be, well soluble within the present statutory authority.

But looking for next year and the year after, it would seem to me that if it is a question of supply and demand, if the United States has the capacity to produce the wheat, which I believe it does, then if we pass the kind of bill which you are advocating, what you would in effect do would be to hold down the price of wheat to such a point as to discourage this additional planting of wheat. In other words, you would assure that you would have x number of bushels of wheat for the domestic supply, and that couldn't go out of the country no matter what the price was for export.

It seems to me that would hold down your demand, and hence your price, and hence your production. That's the thing that concerns me about it, because I see the dollars may be cheap now. I think the dollar is undervalued on world markets, and I think it is going to go up, provided we give them a produce to purchase with it. But the value of the dollar is always going to stay down if they can't buy anything, if those few products that we have that are attractive, if we prevent the export of them. That is the thing that concerns me.

Mr. ROSENTHAL. In the new Agricultural Act just passed and signed by the President in August, it guarantees the farmer a target price for wheat of $2.05 a bushel. In no way can he get less than that—$2.05. With the last 2 years of the act there is a stabilization upward of the price, because of the cost of living or cost of production of wheat.

So that could increase that target price. The farmer is guaranteed that basic minimum.

Now, wheat now is selling for—in Chicago the futures are over $5. They were $1.60 last year. So that it has gone up astronomically, beyond the dreams of anybody. I don't think anybody expected that kind of a price structure for wheat.

The farmers are doing very well. Good luck to them. We hope to see them continue to do well from here on in.

Senator JOHNSTON. It seems to me that is the very kind of situation that is contemplated by the present act. I think the problem is to convince Secretary Butz that what you say is true, not new legislation, but convince him that under the present act we have that power.

Gentlemen, we appreciate your testimony very much. If there is nothing to add, let me just say in conclusion that I am very sympathetic. I know all of the committee members are, to your situation, particularly this year. For my own part, I want to see the American farmer given the chance to rise to the occasion. It may be too late this year, but I would like to see him given that chance next year and the years after.

Thank you very much.

[The following letter was received for the record:]

American Bakers Cooperative Inc.
HEADQUARTERS OFFICE
725 TEANECK ROAD TEANECK, N. J.

September 26, 1973

Honorable John Sparkman, Chairman
U.S. Senate Baking Committee
Room - 5300, New Senate Office Building
Washington, D.C.

Gentlemen:

American Bakers Cooperative, Inc., represents over 50 Independent Wholesale Bakers throughout the United States. Many of these bakers are in serious financial difficulty due to the spiraling cost of flour.

This problem is further aggravated by the panic buying of wheat which we are witnessing at this time. Crop data released by the Department of Agriculture appears, at best, to be pure estimates without any factual basis, and invariably at odds with other sources of information.

It is obvious that we must first of all obtain an accurate picture of our crop inventories. Export sales must be brought under control while this study is being made.

Secondly, in no event should our carryover inventory be less than domestic consumption for one (1) year.

We are not opposed to exports, but we are opposed to the reckless sales of food products to foreign nations at the expense of our own people.

We, therefore, urgently recommend that Congress take the necessary action to have legislation passed which would impose control on all export sales of agricultural products, for at least one (1) year.

Very truly yours,

AMERICAN BAKERS COOPERATIVE, INC.

George O'Rourke
Vice President - Operations

John Peyton
Treasurer

Senator JOHNSTON. The next witness is Mr. Clifford McIntire from the American Farm Bureau.

STATEMENT OF CLIFFORD G. McINTIRE, LEGISLATIVE DIRECTOR, AMERICAN FARM BUREAU FEDERATION, ACCOMPANIED BY DONALD E. HIRSCH, ASSISTANT LEGISLATIVE DIRECTOR

Senator JOHNSTON. Mr. McIntire, I might add that I have read your statement and it appears that you and I are in rather substantial agreement. Therefore if you would like to simply offer your statement into the record and give me some off-the-record comments, I would like to have a little discussion with you on this problem.

Mr. McINTIRE. Thank you very kindly, Mr. Chairman.

I will be very happy to file the statement for the record.

May I introduce Mr. Donald Hirsch. Mr. Hirsch is assistant legislative director on the legislative staff of the American Farm Bureau Federation. Mr. Hirsch's particular assignment on the staff is in the field of foreign trade and he is on our staff here in Washington, having been in the staff structure of the American Farm Bureau Federation for a number of years. Mr. Hirsch served in Farm Bureau's foreign trade efforts as director of an office which the American Farm Bureau had for a time established in Rotterdam, Holland. I consider Mr. Hirsch the expert on our staff in relation to many of these foreign trade issues.

Mr. Chairman, in addition to this prepared statement, I would like to place in the record a telegram which was sent by the president of the American Farm Bureau Federation dated September 21 to the President, the Secretary of Agriculture, and the Secretary of the Treasury.

May I read, because it is brief, the body of this telegram:

> * * * We understand consideration may be given to the imposition of export controls on cotton. The American Farm Bureau Federation vigorously opposes export controls on cotton or any other agricultural product. Such controls would reduce production, seriously damage the reputation of the United States as a reliable source of agricultural supplies, and reduce our capacity to be effective in current international trade negotiations. * * *

That is the telegram that went to the parties that I mentioned and I appreciate the opportunity of reading the telegram into the record.

Senator JOHNSTON. Thank you very much.

Mr. McINTIRE. Mr. Chairman, I would be happy to respond to any questions you may have to the extent of our ability.

[The statement follows:]

FARM BUREAU

TESTIMONY

PROPOSED AMENDMENTS TO THE
EXPORT ADMINISTRATION ACT OF 1969

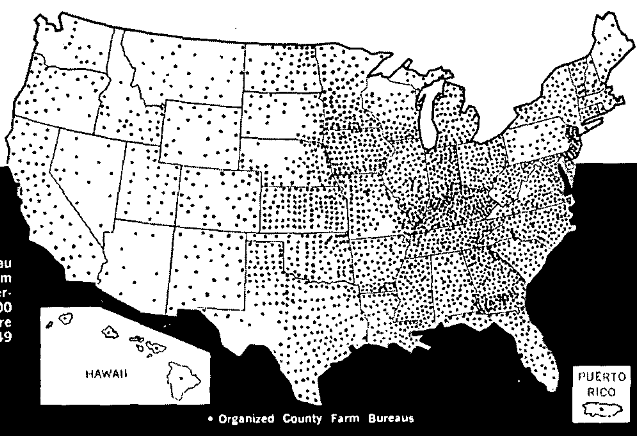
Farm Bureau is a free, independent, non-governmental, voluntary organization of farm and ranch families united for the purpose of analyzing their problems and formulating action to achieve educational improvement, economic opportunity, and social advancement and, thereby, to promote the national well-being. Farm Bureau is local, statewide, national, and international in its scope and influence and is non-partisan, non-sectarian and non-secret in character.

Presented to
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

by
Clifford G. McIntire, Legislative Director
Donald E. Hirsch, Assistant Legislative Director

September 26, 1973

The American Farm Bureau Federation is a general farm organization with a membership of more than 2,000,000 member families in more than 2,800 counties in 49 States and Puerto Rico.



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STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
Before the Senate Committee on Banking, Housing and Urban Affairs
On Proposed Amendments To The
Export Administration Act of 1969

Presented by
Clifford G. McIntire, Legislative Director
Donald E. Hirsch, Assistant Legislative Director

September 26, 1973

We appreciate this opportunity to present Farm Bureau's views with respect to S. 2053, a bill to amend the Export Administration Act of 1969. Farm Bureau is the largest general farm organization in the United States with a membership of 2,175,780 families in forty-nine states and Puerto Rico. It is a voluntary, nongovernmental organization and represents farmers who produce virtually every agricultural commodity produced in the entire country.

American agriculture has an important stake in a high level of mutually advantageous world trade. Exports represent a significant part of the total market for our agricultural production. The production from about one harvested acre in four is exported.

Exports have a favorable effect on the net incomes of the producers of the commodities exported, on the incomes of producers of other farm commodities, and on the incomes of workers who are employed in transportation and other export-related industries.

Conversely, the net incomes of all agricultural producers would be adversely affected by a drop in exports and the consequent diversion of a greater share of our productive capacity to the output of commodities destined for the domestic market.

Farmers and ranchers support two-way trade. In addition to our gains from a high level of export trade, we can gain from imports of items used in farm production which can help to reduce our production costs.

The more than two million member families of Farm Bureau, working through their policy development process, have developed policies that clearly and emphatically state their support for expanding exports of U.S. agricultural commodities and for developing mutually advantageous trade with other nations.

The basic purpose of S. 2053 -- like H.R. 8547, which was passed by the House of Representatives on September 6 -- is to increase the authority of the Executive Branch of the federal government to impose export controls on agricultural products.

We strongly oppose agricultural export controls for the following reasons:

1. Export controls, like price ceilings, deal with the symptoms of inflation and divert attention from the need for a direct attack on our economic problems through effective action to reduce government spending. Compulsory allocation of supplies by government supplants price as the mechanism for adjusting supply to demand -- and it cannot do the job as well.
2. Farmers and nonfarmers alike have benefited from the upsurge in agricultural exports to an all-time high of $12.9 billion during fiscal year 1973. Increased output -- made possible by export sales -- means lower average production costs, which will lead to higher incomes for farmers and lower food costs for consumers. The dollars earned by commercial exports are critically important to our country's international balance of payments. Although we

had a small surplus in this balance during the second quarter of 1973, further increases in agricultural exports will be needed in the years ahead to pay for expanding imports of petroleum and other essential raw materials.

3. The imposition of export controls on certain agricultural commodities earlier this year was a disastrous mistake. The long-run result is likely to be a loss of some hard-won markets due to shattered faith -- on the part of foreign buyers confronted by broken sales contracts -- in the dependability of the U.S. as a source of supplies. Furthermore, the effectiveness of U.S. representatives in upcoming trade negotiations has been reduced. It will be harder to persuade foreign countries to lower their barriers to imports of our commodities.

4. The recent misuse of existing authority certainly should preclude granting additional export control authority to the Executive Branch of government.

In the interests of farmers and ranchers, urban consumers, and the national economy, Farm Bureau urges you to reject S. 2053 and all other proposals to restrain agricultural exports.

Senator JOHNSTON. I am concerned about the kind of thing that took place with the Russian wheat deal. It seems to me that the problem is one of this massive market being able to act cohesively and secretly and in a free market mechanism.

How can we prevent that kind of thing, where our wheat is bought up at a low price, in effect? Because it was done discretely and secretly.

Mr. McINTIRE. Let me respond to that; Mr. Hirsch may wish to make some further response.

I am sure, Senator, we are both aware of the fact that this transaction came at a time when we considered ourselves as a surplus supplier with surpluses on hand.

The second point. I think dealing with the mechanisms of the Soviet economy is one that is most difficult to fathom.

Senator JOHNSTON. We didn't know they were going to buy 40 percent of the crop, did we?

Mr. McINTIRE. No; and I guess from what I read that at the time of the initial overtures it is possible that even the Russian Government was not aware of the magnitude of their shortage of wheat, so a second thrust came in.

I think we have to recognize that we are not Government traders. We use the private trade to move commodities into export. Working through our market system, we found a situation requiring us to set in mechanisms to be better informed which we ought to have done before. I do think there is much reporting structure here that helps to get signals from the free world market. I suppose we will always be wondering about the markets of a closed economy like those of the Communist nations. It is not easy to get the information. The information is not as readily available.

I think the United States has had very interesting learning experience; I think we have done many things probably that have——

Senator JOHNSTON. Have we done all we need to do?

Mr. McINTIRE. I don't suppose we can ever do all we need to do.

Senator JOHNSTON. Are you satisfied that the steps taken by the President already are sufficient to prevent that kind of a situation again?

Mr. McINTIRE. I think our communications system is far more alert to climatic conditions. I think out of this experience we probably are better able to interpret known climatic conditions in producing areas of the Communist countries.

This kind of information sharpens up an evaluation of what is perhaps a developing situation. Then the new reporting system, which we support, has been a move made to get a closer reading on all of the export commitments in the marketplace. This is an improvement.

I doubt if it is going to be perfect to every developing situation.

Senator JOHNSTON. Are you satisfied that American agriculture has the capacity to produce the needed commodities for all of these foreign markets? If allowed to go ahead and produce?

Mr. McINTIRE. I am satisfied we can come far closer to our needs without the restrictions of Government-managed exports. I think we have got the capacity to respond even more fully to world demands. This has got to be developed through the price and profit structure.

I think there will be crop-to-crop adjustments.

Our capacity to produce of course is going to be related to the availability of fertilizer supplies at the appropriate time; it is going to be related to the availability of insecticides at the appropriate time.

Production is going to be related to the availability of fuel supplies. There are many factors that may be too restrictive as we go through some of the environmental pressure points that we are experiencing right now. The capacity of American agriculture to produce food for domestic consumption with very, very substantial exports, is a phenomenon of which I don't think we have fully measured as yet.

Mr. Hirsch?

Mr. HIRSCH. One additional comment, if I may. The world demand for food, and feeds that are used to produce food, is an intangible thing. If we are talking about just the effective demand—that is, demand as measured by the ability to pay for commodities—and then adding to that some volume for concessional sales and donations to the developing countries and so forth, we have a much smaller figure in total than if we are just thinking in terms of what people would like to have, or what they could utilize in a nutritional way.

With regard to the total world demand, in the nutritional sense, there is no country that could ever possibly meet it in the foreseeable future. Not even our country could do it. But in terms of effective demand plus some concessional sales and donations, our agricultural production capacity is so great that all U.S. farmers need is the chance to perform.

Senator JOHNSTON. Can we meet the effective demands for some years to come?

Mr. HIRSCH. Yes, as far as we can see, but with the changing world we have, it is difficult to say what the demands might be a decade hence.

Mr. MCINTIRE. May I make a further comment?

I don't think we ought to take out of that analysis the capacity of other countries to produce the foods. The demands of their people will become high priority crops in their own countries. The world capacity here of course probably never meets the needs of drought or underdeveloped areas and higher demands of their people.

But we should never overlook the fact that the price mechanism around the world, if allowed to have an important part in the return to farmers in foreign countries, would make some rather dramatic adjustments to meet the world demand for food.

There are places around this world that have got capacities to produce more food, both in the agricultural sections of the developed countries, and some of the less developed countries. Probably we have not fully measured yet the world demand for food that is developing by an upgrading standard of living. This demand can be met if those countries will permit a pricing mechanism to work that gives returns to their producers also.

Senator JOHNSTON. Gentlemen, you heard the bakers testify about the critical shortage of wheat. Do you concur with that, or do you agree with it, or disagree with it?

Mr. MCINTIRE. I can understand a concern here. I am not certain that I can put a statistical evaluation to it, as comment on their statistics. But let me just make an observation. I think the processors of food are confronted by a dramatic change from surplus of wheat to a strong domestic and world demand. They did not enter the market in advance.

This change is a new experience to many processors. This experience is frustrating; it causes real concerns, because now it is the marketplace where purchases must be made. They are challenged by the marketplace; the Government reserve supplies, which have served as their reserves, are not at hand. The CCC stocks on wheat under loan is no longer available when they want to buy. It causes concern and apprehensions. It is quite understandable.

Senator JOHNSTON. Are you saying that you don't have the factual basis to either concur or disagree with the bakers' statistical analysis of the emergency?

Mr. MCINTIRE. Well, I am not fully accepting their facts of the extreme shortage.

Senator JOHNSTON. You are not agreeing, but you don't argue with it, either. You are saying it is a very upsetting thing, that you have a new market situation?

Mr. MCINTIRE. This is a new experience. I can understand that they look at their figures and not having the backlog of wheat in surplus nor much experience in a strong demand situation, the situation that they are facing now looks like one that is terribly difficult.

Senator JOHNSTON. They are asking for help right now. They are saying we want Secretary Butz to listen to us and exercise that power that exists under the present law, or if that is not sufficient, give us some new law for this year, because it is too late now for the increased set-aside acreage to do any good for this year, we have a real shortage this year.

Are they entitled to that help or should we say the marketplace will take care of you this year? I don't mean to be arguing with you, but they are calling on me for help and I would like your advice.

Mr. HIRSCH. Two aspects of the situation weren't mentioned, or at least I didn't hear them mentioned today. One was that the Secretary of Commerce and the Secretary of Agriculture rejected a proposal last month to establish export controls on wheat. This is the same administration, of course, that put export controls on more than 40 other agricultural commodities. So one would assume that they have looked at the wheat situation very carefully. The administration had basically three points involved in its refusal to impose export controls on wheat.

One was, as was mentioned during the testimony, USDA people do believe, or did believe at that time, that some of the reported export bookings actually were not sales, in the sense that they did not involve a price. And certainly if you are talking about shipping a quantity of anything anywhere, if you aren't talking in terms of price, you are not talking about a sale.

A second thing was that the administration then anticipated that wheat production in our own country would be higher than the estimates previously made by USDA. This was not really, as I understand it, to discount their own estimates; when later information became available, they thought production would be higher. And production estimates did rise at a later date.

Then the third point they raised was that rapidly increasing prices in grains reduce the commercial demand for grains by both domestic and foreign buyers.

I think that right along with this is a point that Mr. McIntire raised. Storing is simply a normal function, one of the basic functions of marketing, and it is one that has been performed to some extent by Government. It can best be performed by industry.

As processors in our country—I am thinking more of the milling industry than the baking industry—as they get back into the swing of performing the storage function to a greater extent than they have in recent years, they will find that they will be able to acquire their needed supplies from the domestic production. The second aspect of the situation that was not mentioned earlier today concerns world supplies and demand for wheat. At an FAD conference held last week, the consensus was that supplies are tight but a worldwide shortage is not likely.

Senator JOHNSTON. Gentlemen, I appreciate very much your testimony. You have been very helpful to the committee. Your full statement will be put into the record and the committee will be recessed until tomorrow morning at 10 o'clock.

[Whereupon, at 3:40 p.m., the hearing was adjourned, to reconvene at 10 a.m., Thursday, September 27, 1973.]

EXPORT PRIORITIES ACT

THURSDAY, SEPTEMBER 27, 1973

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:30 a.m., pursuant to adjournment, in room 5302, Dirksen Senate Office Building, Senator John Sparkman, chairman of the committee, presiding.

Present: Senators Sparkman, Proxmire, and Stevenson.

The CHAIRMAN. Let the committee come to order, please.

I am sorry to have had this holdup, but we had a live quorum on the floor and we had to go to it.

Before we begin let me insert in the record, at this point, a statement received from Congressman Burke of Massachusetts.

[The statement follows:]

STATEMENT OF JAMES A. BURKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. Chairman, I am deeply concerned over a situation recently brought to my attention—the scarce and dwindling supplies of petrochemicals which are used by many industries in the United States, particularly the plastics industry. Our petrochemicals are being exported because of the inflated prices they can command on foreign markets.

I am documenting for the Record the case of one company Reichhold Chemicals, Inc., Blane Chemical Division in Mansfield, Massachusetts; "During the first quarter of 1973, the Blane Division employed 110 people. A severe shortage of plastic raw materials has necessitated a cutback in operations. Today we are employing only 75 people—a loss of 35 jobs. Without an immediate alleviation of this shortage, further cutbacks will become mandatory—a complete shutdown of our operations is possible. One of the principal reasons for this shortage is the export sales of these plastic raw materials. Our suppliers are selling overseas where there is no ceiling on selling prices in order to avoid the domestic restrictions on price increases. Hence we suggest an immediate embargo on the export of the following materials:

Vinyl Chloride Monomer.
Poly (Vinyl Chloride) resin and copolymers thereof,
Phthalic Anhydride,
Trimellitic Anhydride,
Adipic Acid,
Dioctyl Alcohol (2-ethyl hexanol),
Isooctyl Alcohol (isooctanol),
Isodecyl Alcohol (isodecanol),
Tridecyl Alcohol (tridecanol), and
Normal-Octyl, Normal-Decyl Alcohol.

I hope that the Committee will weigh this situation very carefully in conjunction with your consideration of the Export Administration Act Amendment. This is clearly a case where export controls should be used to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand. The energy crisis which has led to severe cutbacks in petroleum feedstocks to the petrochemical industry means that petrochemicals will not be in abundant supply at a moment when demand is at an all time high. It is imperative, therefore, that some action be taken to protect the consumer and U.S. industries from any further loss of these vital petrochemicals and I think the bill we have here today could act as a vehicle for this protection.

The CHAIRMAN. Our first witness this morning is Mr. Eliot Janeway. Mr. Janeway has been before us previously and we always welcome you back. We are glad to have you, sir, and you may present your statement as you see fit. It will be printed in its entirety in the record.

STATEMENT OF ELIOT JANEWAY, JANEWAY PUBLISHING AND RESEARCH CORP.

Mr. JANEWAY. Mr. Chairman, I am privileged to appear in support of bill S. 2411, introduced by Senator Javits and Senator Stevenson, to amend the Export Administration Act of 1969, as required to enable the United States to reap a full harvest of national welfare from its proprietary exports of farm products. I am happy to endorse it.

"Agripower" is the term I have used to describe the rich opportunity awaiting America to mobilize her formidable potential in defense of the dollar and as a counter-thrust against the squeeze of inflation.

The Javits-Stevenson bill would make an effective beginning of leading America back toward the way she has lost.

First, I would like to congratulate Senator Javits and Senator Stevenson for their bipartisan decision to move to implement the proposal I made, June 1, to the Senate Finance Committee, Subcommittee on International Finance and Resources, chaired by Senator Harry F. Byrd, Jr., to create a trust fund from the incremental proceeds of the American farm export boom.

I am confident that the farm boom is here to stay, but I am alarmed because our Government is afraid that it is not.

This fear of a return to farm glut explains the reluctance to take advantage of the historic opportunity offered by the farm export boom to enable our country to retrieve its lost bargaining power abroad and to use it to guarantee the restabilization of the international dollar.

Doing so is the first and indispensable step toward building defenses against inflation here at home.

In terms of the humanitarian considerations which the Javits-Stevenson bill puts into statesmanlike tandem with the practical mechanism needed, doing so is an urgent "must" if inflation is not to dissipate our wherewithal for averting the tragedy and the disgrace of mass famine engulfing congested areas in the underdeveloped world.

Mr. Chairman, I see that Mr. McNamara has called on us to make more food available for the poor. I fear there isn't enough for the rich, in a world in which the longest purse is filling the deepest shopping bag.

A word of clarification is in order about the trust fund approach. It is not an export tax, if only because its proceeds would not be mingled with other tax or tariff revenues. Bureaucratic resistance to it, however, has been offered by the writers of boilerplate opinions in the Treasury, Agriculture, and Commerce Departments. The objection cited from all three is unanimously that the Constitution, article I, section 9, bans export taxes. Without presuming to pretentiousness as to the rights and wrongs of constitutional law, suffice it that every high school student of American history is clear about the purpose of this negative thrust of the Constitution. It was to get the individual States out of the business of meddling in international commerce. It was to reserve this responsibility—and all the powers going with it—to the new Federal Government created by the Constitution. It strikes me as ironical that an administration conspicious for its lack of inhibition in asserting its claims to power vis-a-vis its own citizens insists on playing the role of the reluctant maiden in shrinking its responsibilities to use the powers it has vis-a-vis America's trading partners.

With relation to our trading partners, I see no difference between the export licensing fees going into the proposed trust fund and the exit visa fee paid by every traveler leaving the Zurich and Geneva airports. And I see no end of trading awkwardness and positive disadvantage looming for the Government if it invites an anachronistic and bureaucratic misreading of the Constitutional text to disarm it in the difficult trading negotiations it faces.

A current case in point is suggested by the action of the Canadian Government in imposing an outright—and no apologies about it—export tax on the movement of crude oil across our common frontier.

The Cost of Living Council overnight found itself deflated into the very embodiment of the "pitiful, helpless giant" which the President has warned us not to let our Government become. It had no alternative.

Shutdowns of our inadequate refining capacity loomed as the inescapable alternative to passthrough of the higher raw material cost.

Two morals are clear from this confrontation and surrender. The first is that the American Government needs the proposed trust fund in order to bargain reciprocally with America's trading partners imposing export taxes.

The second is fortified by the experience of two world wars, and the all-out emergency control operation launched during the Korean War: We are on notice to expect nothing but what we are getting from any control system limited in its reach to the domestic American economy.

No program of controls or priorities which shirks the responsibility of bargaining evenhandedly for the international allocation of America's resources will work—internationally or domestically.

But the more forcefully the Government moves to allocate its resources internationally, the less dislocative and onerous any restrictions on normal market movements will be on our own people.

I do not mean to be in the position of identifying all our inflationary losses and irresponsibilities as international in character.

But, I do mean to be in the position of asserting that no progress will be made against inflation—not that we have yet begun to make any—by the purely domestic expedients we have adopted.

These domestic expedients are complicated because our Government has hesitated to grasp the nettle by bargaining for what the trade will bear internationally.

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I congratulate Senator Javits and Senator Stevenson for proposing the simple, workable, and profitable offshore rules of the road calculated to relieve the pressure for the complicated unworkable and costly controls with which we are saddled here at home.

Turning to the specifics of the Javits-Stevenson proposal, the place to begin is clearly with our proprietary agricultural exports.

For the sake of simplicity in making the case for an export trust fund, I limited my proposal in my appearance before Senator Byrd's subcommittee to food and feed crops.

Although I was able in the colloquy which followed to mention the parallel breakout in cotton exports, I am glad Senator Javits in his September 13 statement noted Senator Talmadge's forthright complaint about the inflationary consequences of cotton exports following where wheat, soybean, and corn exports have already led.

As Senator Talmade warned, the consequences to our own economy are already apparent in forced shutdowns of textile mills rich in unfilled orders, but poor in the wherewithal to meet foreign bids for American crops and sell at American price ceilings.

The phenomenon of cotton export diversion and textile mill shutdown offers an eerie parallel to that of feed crop diversion and cattle herd and poultry flock liquidation.

Two practical considerations are suggested by the statements of Senator Javits and Senator Talmadge.

The first is that China is now adding a formidable new dimension of continuous demand to the unprecedented and, as I believe, unquenchable money-good demand for American farm products from abroad.

The second is that the Treasury, Agriculture, and Commerce Departments have shifted their ground since the farm export boom took hold.

Their original objection was based on an underestimation of foreign demand at any price. Now they are cautiously advertising the magitude of the farm export movement.

In fact, they are basing their claim that the dollar has overcome its weakness on the strength of the farm export boom, which they were pooh-poohing until just a few months ago.

Contrary to the wishful thinking of the Treasury, Agriculture, and Commerce Departments, however, the mere strength of the farm export movement will not guarantee a return of strength for the dollar. On the contrary, the dollar has been weakest when the farm export movement has been strongest.

This is not coincidence, but cause.

Secretary Shultz has admitted that this country was "burned"—the word is his—when the Russian wheat deal sounded the signal for every American farm export customer to buy every pound of every food crop already in sight and still underground.

If America was merely burned in the Russian wheat deal, she was positively charred in the orgy of speculation between April and June 1973 which sent food prices soaring at rates not seen even in wartime and, at the same time, invited foreign buyers to settle in the cheaper dollars they were dumping. Thanks to the accommodation given them by dollar devaluation, they were able to bid up domestic American food prices while paying less in their own harder currencies for their export "take" from the Chicago farm futures markets.

The result of this bitter experience was forced liquidation by American food processors unable to compete in American dollars against the harder currencies pushing their raw material costs up out of their reach; it was gouging on the American consumer; and it lavished subsidies on America's foreign competitors.

It is little wonder they are now her increasingly anxious creditors.

The Javits-Stevenson bill puts considerable emphasis on the appropriateness of a set-aside up to 10 percent of our crop export availabilities for humanitarian donations to underdeveloped countries in danger of starvation.

I endorse this in principle, but I would like to suggest what I can best call a bargaining approach to implementing it.

I deplore the cruel, if unwitting, hoax being perpetrated by theorists talking about the underdeveloped countries of the world coming of age economically and financially in this year of 15-percent money for nonprime borrowers and $5 wheat for prime takers.

Such talk is disoriented to the point of being a passport to moral panic and political impotence.

The immediate challenge is not to lend a helping hand to the developing nations to qualify as emergent economic powers. The urgency is to save them from the agony of famine.

A full-fledged ordeal of the dimension prophesied a century and a half ago by Malthus will be the price humanity will pay if America fails to set its house in order forthwith, beginning with its ability to bargain for what the traffic will bear from its dollar-rich customers.

I see no reason for America not to bring her agripower to bear exactly as the oil-producing countries are bringing their petropower to bear, not least because I trust America to mobilize her agripower as a trusteeship for the world's have-nots and to set an example for the petropowers to follow.

Historically, wars, epidemics, and ordeals of starvation have brought forced balance to the world's supply/demand food equation, and these calamities were borne in silence in the areas then insulated from the mainstream of world opinion. No area now is.

It is easy to say that world opinion will not tolerate another episode of mass starvation. But world opinion will have no alternative to starvation unless America begins to husband her farm resources and match them against the financial revenues of its money-good, food-hungry customers.

No other massive source of food production is available to feed the money-good world in the style to which it has become accustomed while also doling out subsistence rations to the millions subject to starvation this year and next.

I suggest that the approach envisioned in the Javits-Stevenson bill be broadened by being channeled through the United Nations.

The spectacle the United Nations presents recalls the wry comment of the late great Secretary of State Dean Acheson that Britain had lost an empire without finding a role.

The United Nations has lost a mission without finding a role. It has demonstrated its uselessness as a peace-enforcing agency. Surely, here is a responsibility which it is equipped without controversy to meet.

The timeliness of channeling the Javits-Stevenson bill through the United Nations is underscored by the admission of West Germany with her enormous financial strength to membership.

I believe, Senator Stevenson, that that dedicated statesman, your father, the memory of whose friendship I shall always cherish, would have welcomed this suggestion if this burning need had arisen during his lifetime.

Two alternative methods could be utilized if the United Nations were to be enlisted as the allocating and dispensing agency for the set-aside earmarked for the developing nations, which are also the starving nations.

Theoretically other food exporting countries could put up pro rata tonnages. The practical alternative is for them to put up counterpart funds to match America's grants of aid in kind.

This would leave America as the only significant source of supply, which she is, but it would provide for counterpart support matching American support.

It is not inappropriate to note that the financial power most critical of America is France in whose African sphere of influence starvation has hit hardest.

A final word is in order on implementation of the procedure provided for in the Javits-Stevenson bill.

I suggest a simple adaptation of the wartime control materials plan devised under the pressure of World War II by the late Ferdinand Eberstadt. This approach won the war for us, and it can now win the peace for us.

Appropriately enough, because food was a weapon then, and it is a weapon now, the decisive weapon, I believe.

I propose carrying the two-point clearance itemized in section 202 (a) and (b) one step further: To provide for the Secretary of the Treasury to invite all export customers of record to submit requests through their respective central banks for their share of the total allocation to be determined for export by deliberation between the Secretary of Agriculture and the Secretary of Commerce.

No country which is a competitor of America's and a creditor of the dollar could refuse to comply with this procedure. The moment any of them did, all of them would. As fast as their requests were filed, the dollar would strengthen.

Of course, all their requests would be inflated. The dollar would get its own back as fast as their requests were deflated.

As Senator Javits' statement notes, bargaining over how much tonnage to ship in return for how much hard cash pay-back to nourish our muscle is theway to maximize our bargaining power by contrast with brandishing the embargo weapon which forecloses use of it.

Putting the Javits-Stevenson bill in broad perspective, I think it realistic to say that its premise recognizes that the enjoyment of plenty has thrust us back into an economy of scarcity. Its effect would be to share the burden of inflation on a more equitable basis with our customers.

They have used their power as creditors to force us to accept an intolerable share of the prevailing inflation and to maximize the Americanization of their living standards at minimal cost.

The machinery devised in the Javits-Stevenson bill would redress the inequity, obliging foreign participants in America's unparalleled farm economy to shoulder their full fair share of the burden of supporting the American standard of living, and putting up the hard cash to minimize further inflationary erosion of it.

The choice facing this Government between inviting Tokyo's $12-a-pound price of beef to go to $20 and bringing milk, eggs, cereals, and chicken to her own deprived ghetto schoolchildren is easy to make. Politicians in every other country—freely elected or not—will agree that America has no choice but to charge her necessitous foreign food customers for her own welfare costs. The traffic will bear it. All America needs to do to make the traffic bear it is to go with the market—for the foreseeable future.

My own proposal for mobilizing American agripower stopped short at the creation of a trust fund for the defense of the international dollar without specifying any earmarked domestic use for the proceeds.

My reason for limiting my proposal in this modest way reflects my continuing fear of further dollar weakness. It expresses my strong disagreement with Secretary Shultz's view that dollar weakness is neither America's problem nor calls for any American response.

It implements my observation that the lower the dollar goes the higher the cost of living and of doing business inside America will go.

In endorsing the Javits-Stevenson bill, I offer no objection or demurrer to any of the desirable programs designated in it for financing from the proposed trust fund.

I do note, however, that spending on what I regard as an insupportable scale is still being lavished on land diverted from production in this new age of scarcity, as well on our so-called military assistance to countries which are able to bank us, but are not, and which are instead banking the presumed targets of our military assistance in this age of advertised détente.

I hope that the funds pouring into the proposed dollar trust fund will not be drained for continued subsidy of such folly.

Agreeing as I do on the claim of school lunch, child nutrition, and related programs to top priority, I urge upon you the consideration that there is no shortcut to welfare which sidesteps the first line of defense for welfare and against inflation represented by the international dollar.

The way to get more benefit for the buck is to put more muscle behind the buck. The muscle is there to be flexed and used.

Our farms are producing the sinews of war to win the battle of peace. I hope that our Government will back them up at the negotiating table. You Senators are taking the lead.

The CHAIRMAN. Thank you very much, Mr. Janeway. You made a powerful statement.

Senator Proxmire?

Senator PROXMIRE. Mr. Janeway, I am wondering if we have the economic capability and expertise to do what is called for here.

I am inclined to support this legislation, but it calls upon the Secretary of Agriculture to determine the quantity of the crop that would be available for export and inform the Secretary of Commerce thereof, who shall thereupon publicly announce such determination.

As you know, the Department of Agriculture has been enormously remiss, incompetent, in predicting what is going to happen to food prices, as everybody else has been, in and out of our Government.

They did not foresee the impact of the Russian wheat arrangement. They did not foresee the impact of devaluation. They had no notion that wheat was going to go through the roof, up to $4, close to $5, or that other feed grains were going to follow.

What new capability do they have that will put them in a position to make the kind of Olympian determination that is called for here?

Mr. JANEWAY. Senator Proxmire, I share your dim view of the governing nonexpertise. Incompetent though the Agriculture Department is, nevertheless it seems to me that even it could arrive at export quota determinations which would touch off a bidding contest, turning our creditors into supplicants. If you simply resorted to what we did during World War II, if you set up an industry committee system and had the various commodity groups come in and say, how much do you think we ought to have for export. Let it go at that, just let it be a bidding contest—the more you cut back the foreign customer, the greater your bargaining advantage over them would be.

Now, as you know, Senator, I have been vigorous in my warning against blind knee-jerk responses to the macroeconomic approach. We hear in this connection that the American economy is not export sensitive because only a fractional margin of our gross national product goes to export. Agriculture, as all three of you gentlemen know, from your own home State, runs up to and above a 50-percent dependence on exports. It is the one sector of the American economy which is export-dependent. As the world is structured, incompetent through our Government is, really you can apply what they call on Wall Street a discount for management.

Senator PROXMIRE. I don't mean to be critical of Secretary Butz. I think he is an intelligent and able man. I just think that the——

Mr. JANEWAY. The record is dismal.

Senator PROXMIRE [continuing]. The degree of competence we have in our whole economic area, we didn't get this kind of criticism or evaluation or analysis from the critics.

The academic experts were no better. The business and labor people, they didn't come in with any warning in this area either.

It seems to me for that reason we have to be a little cautious in assuming that in advance of a crop year, which is necessary, the Secretary of Agriculture is going to be able to come forth with an allocation and decision which is going to result in solving our inflation problem here at home, at least preventing the kind of terrible experience we had last month, and at the same time providing equitably and fairly for our friends overseas.

Mr. JANEWAY. Senator, let's take it in either alternative.

Let's suppose we suffer the blight of a crop failure, in which case the weapon of agripower would be still stronger in our hands.

We hope we won't suffer a crop failure. It would be an unparalleled catastrophe. But suppose we did. After all, the official estimates and the advisory committee recommendations were off because too high.

The higher the crop the greater our bargaining power would be.'

Now, take it the other way. Let's suppose that the official estimates and the advisory group recommendations erred on the side of being too low and you came in with bumper crops of all of our export items that were produced.

What I like about the Javits-Stevenson approach and the reason I am frankly enthusiastic in endorsing it is that it minimizes dependence on Government machinery or on intergovernmental or interdepartmental deliberations, and instead brings the governmental regulatory procedure over into the marketplace.

As I started to say before, any discount for management in our Government would be more than offset the moment we took protective shelter in the marketplace, where everything is on our side.

It is an achievement of ingenuity plus perserverence to have come to the table with our chips and left without our pants.

To have paraded ourselves into this squeeze really recalls Kant's definition of genius, which I believe was "a limitless capacity for taking infinite pains."

We have got the food. There is no way you can run any establishments anywhere in the world today without being a supplicant at the American shipping dock. And we can literally force—we can leverage strength for the dollar and, therefore, correction of this inflation by saying to our customers, who happen to be our competitors and our creditors, come and get it, and here is what we will charge you for the privilege of access to it.

Senator, if this perhaps helps you, there is no way in which any bumper crop going clear off any chart could relieve the shortage in the offshore world from 1974 to 1976 as a bare minimum, and there is no way, therefore, in which our dominant position at the bargaining table could be taken from us.

Senator PROXMIRE. Well, I think you have a very strong and proper point. But, another thing that this legislation does, and perhaps it is necessary, is to give the Secretary enormous discretionary power on the basis of the quantity—I am reading:

> The quantity of any commodity available for export in any crop year shall be allocated among foreign countries by the Secretary on the basis of the quantity of such commodity exported to such countries during a representative base period * * *

It doesn't say which base period. He can apparently pick that.

> * * * and on the basis of such other factors as the Secretary determines to be fair and equitable * * *

It is very general language.

He could do whatever he wants in that area.

The reason I raise that point, and I would agree that language of this general kind may be necessary, is that I would think we would want to be sure that we have an expiration of this legislation within a sufficient period so we could take a look at the performance of the Secretary of Agriculture and the administration, and then decide whether or not we should provide for specific guidelines on the basis of experience, and hold him to account on the basis of his performance.

Now, it is my understanding, the staff tells me, that this basic law, not in this bill, but the basic law that this bill amends, expires next June. But there is some question as to whether or not this particular amendment passed this year would expire too. It probably would, but that is not absolutely clear.

Would you recommend that we have language in the amendment to be sure that we have another look at this next June?

Mr. JANEWAY. Absolutely. I think that is very constructive that you bring up the base period point.

I would like to suggest that the base period determination be considered by this committee in this historical perspective.

It is understandable that all of those professionally engaged in agricultural "guesstimations" should necessarily be conditioned in their thinking by the historical circumstances that 1972 or 1973 ended a full half century of unbroken farm depression.

If I am not mistaken, 1923 was the year which saw the McNary-Haugen legislation first formulated and, as you know, that envisioned aggressive subsidy methods in order to dump surplus crops overseas.

That half century followed a previous century of very indifferent and erratic experience of a boom and bust in agriculture in this country which was mainly bust, more bust than boom, and always keyed into foreign fluctuations and foreign erraticism.

In my judgment we are now in year one of a new era of unbridled, unprecedented breakaway farm expansion, farm prosperity.

It is difficult, therefore, for those who are concerned with counting and marking the trees to look at that forest.

Consequently, any base period determination left to the administrative side and to advisory committees, in my opinion, is going to err on the side of running scared against the recurrence of the expected and famous farm depression.

And the older generation of people engaged in agriculture in this country are themselves in an understandable state of considerable uncertainty.

I remember in the early days of my friendship with President Johnson, when he was a young Congressman, his habitual line that "My daddy went 5-cent cotton and 9-percent money."

The American farmer is petrified of 15-percent money and doesn't trust $5 wheat.

I have no hesitation in putting my reputation on the line with this committee and saying that I think we haven't seen the highs for wheat, and that cotton is going to go very, very much higher.

I would point out to you that this farm depression that we have seen, with cotton being a late starter, has invited farmers to divert cotton land into corn, peanuts, and soybeans. But now the remarkable irreversible strength of this cotton movement—the Chinese are just buying it as if it is going out of style forever, with hard cash—is inducing farmers to come back out of food crops into cotton.

So we are just seeing the first phase of the cotton catch-up.

But your farmers, the older people particularly, are saying, "When you see money this high and crop prices this high, sell, get out."

So any base period determination which is sensitive to farm community sentiment is going to run scared of the recurrence of the farm depression which in my judgment there is no possible way of having.

Senator PROXMIRE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Stevenson?

Senator STEVENSON. Senator Proxmire has put his finger on probably the two greatest weaknesses in this bill. I think Senator Javits and I would be the last to suggest that this bill is perfect by any means. It is a concept we want to advance and try to refine.

I am sure that Senator Javits feels as I do, that any such legislation should have an expiration date. It was our intent to include the expiration date in this amendment.

You were talking about the base period. That is one of the weaknesses in this bill that Senator Proxmire alluded to.

I don't know how to determine a relevant base period for the reasons which you mentioned, Mr. Janeway. I don't know how you persuade the Government and the farming community that the past is no longer relevant.

World institutions like the FAO perceive the world demand for food, but not the Department of Agriculture.

The feeling seems to be that 1972 was an aberration, famine, devaluation of the dollar. Nevertheless 1973 was a recordbreaking crop year in the United States.

How do you do it? How do you begin to make that case?

Far from being an aberration, it is just a portend of what is to come.

Mr. JANEWAY. Well, Senator, why not invite the forces of the market in to justify your own good judgment and to offset the poor judgment of the Department of Agriculture?

Now——

Senator STEVENSON. The market forces have already done that.

Mr. JANEWAY. No; but what you have just said, with which I agree, is that the Department of Agriculture is taking the view, and in which the Treasury Department concurs, that that was a one-time shot and that it has happened.

What I am putting before you is the observation, more than the judgment, that you ain't seen nothing yet.

Now, this administration came to the Smithsonian table determined to devalue, believing that devaluation would be slipping a fast one over on the competition.

The fact is, as the market has now demonstrated, that if we had been in the Japanese instead of the American position, if our currency had gone up a full 40 percent instead of following the Smithsonian and the subsequent devaluations, come down more like 40 percent, we would have sold probably more, certainly not less.

We are not in the position of needing to be price sellers.

But, again, responsive to your question, the American people are discovering that they were gouged, not as a result of profiteering by the merchants at the cash register end of the supermarket but by their competitors in the countries we were subsidizing with this nonstop devaluation. Our competitors were getting their American food for less than we were having to pay for it. Between April and June, food prices rose to record highs; while the dollar fell to record lows. It was a case of cause, not coincidence.

Now, the administration still believes that devaluation is an advantage to be preserved because it will invite still more bargain basement dumping of our exports.

They are back on to McNary-Haugen, when Coolidge was vetoing it. That is about as far as they have come since 1926 and 1927. Hoover vetoed it, too.

But the rest of the world has no limit for what it needs, and you know, in terms of Senator Proxmire's question and your answer, perhaps I should add, Mr. Chairman, a dimension to this calculation, and this I believe would be appropriate to write into the bill.

There are now no food reserves in the world. Any prudent consideration of balance in the supply/demand equation will always allow for a minimum of a 10-percent reserve for contingency against crop failure.

Suppose you gave thought to adding to the bill, Senator Stevenson, some such language as:

This provision to remain in force until world reserves and reserves in the United States as well have risen to 10 percent of last year's consumption.

Now, we—last year's consumption, I mean.

We always know in any given year what last year's consumption was.

If you do it that way, and if you oblige the Secretary of Agriculture to report to you by the quarter or by the half year, certainly by the year, as to any progress made or negative progress suffered in the accumulation of reserves, you will have this on a self-renewing basis and save expense to the Government Printing Office for a minimum of a decade.

Senator STEVENSON. Well, we have attempted to respond to the need for reserves with very general authority to the Secretary to reserve not more than 10 percent.

Mr. JANEWAY. This would cover the time limit consideration, for how long to keep it in force.

Could I point this out, for example: Very competent private "guess-timating" by Dr. Louis M. Thompson at Iowa State University a couple of years ago came pretty close, it seems, to having been on target. He estimated that Latin America would come into deficit as a continent by 1975. This was in the first half of 1973 Latin America fell into deficit, notwithstanding the enormous progress made by Brazil.

The reserves, if you put a cushion, a requirement for a cushion in the form of reserves in here, I think you cope with Senator Proxmire's question.

Senator STEVENSON. Would you extend this concept to other commodities, fertilizer, for example, other non-agricultural commodities?

Mr. JANEWAY. I certainly would to coal, as an answer to part of the energy problem.

I certainly would to timber, even though we are about to suffer an acute housing recession or worse, which has already begun.

I would extend it to copper.

I am troubled by the Senate resolution directing the Government to divest itself of all of its copper stockpile simply because there happens to be an acute commercial shortage. I think that we need some copper stockpile, having no relationship to price movements, not merely for military purposes, but as a reserve against earthquake, brownout and so forth.

If you generalize, Senator Stevenson, about our export pattern, again in terms of the overkill and negative progress represented by devaluation, you will find that all of our new export breakthroughs are casting America in the role of a hewer of wood and a carrier of water.

We are exporting our subsoil, notwithstanding all the hue and cry over protecting our environment. To export our subsoil is to deplete our environment.

What we are exporting is due to either a fluke of nature or the providence and skill of our agricultural communities.

Ask yourself this: If the Japanese or the Germans were in this position, would they be exporting coal and taking back steel and automobiles, or would they be putting their own coal through their own mills and plants and making us buy their automobiles?

Senator STEVENSON. I think the answer is obvious.

We have a rollcall, but let me ask you a further question along this line.

The Japanese are heavily dependent on imports of all raw materials, virtually.

Mr. JANEWAY. Everything. Japan is a laboratory specimen of a have-not.

Senator STEVENSON. Why not, to assure themselves a continuing supply of food, simply invest in the engines of production here in the United States; namely, the topsoil? Why not buy the land and produce right here the soybeans, or raise the feed that they need and buy it with those devalued dollars?

Mr. JANEWAY. We are hearing a joke traveling through the real estate business, you know the word is "Anything the Japanese can overpay for, the Arabs are anxious to show that they can overpay for, too."

I am confident the Japanese will not limit their acquisitions to properties like the St. Francis Hotel in San Francisco. I think they are in fact shopping for considerable acreages of productive land and productive timberland and I believe they have done this also in Canada.

Without holding up your rollcall, may I add this point? If you look at the top line of our export figures you will see that the item represented by animals, by live animals, is going through the roof. Even countries which are perennial slums, like Spain and Italy, are cleaning us out of dairy cattle, and every time one of our foreign crop customers turns to buying animals, what they are doing is increasing their requirements and their entitlement and their inflationary tug on our feed crops.

Buying the finished product represented by the food bearing animal has the same effect, the same inflationary effect, as cleaning us out of feed crops, and it perpetuates the problem.

Our drainage of animals into Japan is tremendous. The Japanese are buying beef in any form. Beef-on-the-hoof is now a tremendous export.

The same is true in the dairy business.

The CHAIRMAN. Mr. Janeway, we must leave if we are going to make this rollcall. We will be back.

[Recess.]

The CHAIRMAN. Let the committee come to order, please.

Mr. Janeway, we are right back to where we were.

Senator Stevenson, I believe you were continuing your questioning.

Senator STEVENSON. Well, what I was getting to was whether, in addition to rationing export commodities, including food, we shouldn't at this point be considering rationing, the ownership of the source of food, land especially. Do you have any thoughts on that proposition?

Mr. JANEWAY. I would not be in favor of denying foreign investors the right to own American land or property in general. On the contrary, I would encourage it, and I see no threat at all to Americans' trading position if they were to accept the invitation.

If they wanted to make money out of the greater production, greater earning power of American land, more power to them. That won't mean, if we had the legislation you are sponsoring now, that if they bought up so many acres of timberland or of soybean land, that they could then carry the incidence of ownership over into exporting as much as they pleased because they, like we, would be subject to our export regulations.

I am gratified and pleased that Chairman Mills has moved publicly, and, I gather, has persuaded Secretary Shultz to go along with him on a proposal I made last year to encourage foreign investment by offering foreigners who make long-term investment, to be determined by the Congress, forgiveness from withholding on their receipts of rents, royalties, interest, and dividends. And also the estate tax.

That would be a long-term correction to our payments problem and would permit corporations again to resume foreign investment without being hurt by restrictions or creating payments problems for us.

I think it would be very healthy to relieve credit stresses in this country, and agriculture is a notorious borrower, to get equity ownership represented by hard foreign money into our land. I am for that.

But if the thrust of your question is would you try to get as much American labor and freight as you could into what went out of the country, my answer is unreservedly, "Yes."

Senator STEVENSON. Let me put the question to you slightly differently.

Would you come to the same conclusion about the desirability of foreign investment in land if the United States did not have this kind of regulatory scheme that we have proposed in this amendment?

Mr. JANEWAY. You mean would I be for their coming in and buying up land and moving the stuff out?

Senator STEVENSON. To assure themselves a supply of soybeans.

Mr. JANEWAY. That would be intolerable. So the fact that there is a considerable movement and an almost uncountable buying power behind the investment movement becomes a very powerful and I think irresistible argument for your legislation.

Senator STEVENSON. Thank you.

I would love to continue this, but we just don't have the time.

I do want to thank you very much for a brilliant statement and say that your support is a source of encouragement to me and I am sure it is to Senator Javits also.

Thank you very much.

Mr. JANEWAY. Thank you.

The CHAIRMAN. Thank you very much, Mr. Janeway. We surely appreciate your patience with us.

[Complete statement of Eliot Janeway follows:]

STATEMENT OF ELIOT JANEWAY, NEW YORK TIMES

I am privileged to appear in support of Bill S. 2411 introduced by Senator Javits and Senator Stevenson to amend the Export Administration Act of 1969, as required to enable the United States to reap a full harvest of national welfare from its proprietary exports of farm products. I am happy to endorse it. "Agripower" is the term I have used to describe the rich opportunity awaiting America to mobilize her formidable potential in defense of the dollar and as a counter-thrust against the squeeze of inflation. The Javits-Stevenson Bill would make an effective beginning of leading America back toward the way she has lost.

First, I would like to congratulate Senator Javits and Senator Stevenson for their bi-partisan decision to move to implement the proposal I made, June 1, to the Senate Finance Committee Subcommittee on International Finance and Resources, chaired by Senator Harry F. Byrd, Jr., to create a trust fund from the incremental proceeds of the American farm export boom. I am confident that the boom is here to stay, but I am alarmed because our Government is afraid that it is not. This fear of a return to farm glut explains the reluctance to take advantage of the historic opportunity offered by the farm export boom to enable our country to retrieve its lost bargaining power abroad and to use it to guarantee the restabilization of the international dollar. Doing so is the first and indispensable step toward building defenses against inflation here at home.

In terms of the humanitarian considerations which the Javits-Stevenson Bill puts into statesmanlike tandem with the practical mechanism needed, doing so is an urgent "must" if inflation is not to dissipate our wherewithal for averting the tragedy and the disgrace of mass famine engulfing congested areas in the underdeveloped world.

A word of clarification is in order about the trust fund approach. It is not an export tax, if only because its proceeds would not be mingled with other tax or tariff revenues. Bureaucratic resistance to it, however, has been offered by the writers of boilerplate opinions in the Treasury, Agriculture and Commerce Departments. The objection cited from all three is unanimously that the Constitution, Article I, Section 9, bans export taxes. Without presuming to pretentiousness as to the rights and wrongs of Constitutional law, suffice it that every high school student of American history is clear about the purpose of this negative thrust of the Constitution. It was to get the individual states out of the business of meddling in international commerce. It was to reserve this responsibility—and all the powers going with it—to the new Federal Government created by the Constitution. It strikes me as ironical that an Administration conspicuous for its lack of inhibition in asserting its claims to power vis-a-vis its own citizens insists on playing the role of the reluctant maiden in shrinking from its responsibilities to use the powers it has vis-a-vis America's trading partners.

With relation to our trading partners I see no difference between the export licensing fees going into the proposed trust fund and the exit visa fee paid by every traveler leaving the Zurich and Geneva airports. And I see no end of trading awkwardness and positive disadvantage looming for the Government if it invites an anachronistic and bureaucratic misreading of Constitutional text to disarm it in the difficult trading negotiations it faces.

A current case in point is suggested by the action of the Canadian Government in imposing an outright—and no apologies about it!—export tax on the movement of crude oil across our common frontier. The Cost of Living Council overnight found itself deflated into the very embodiment of the "pitiful, helpless giant," which the President has warned us not to let our Government become: it had no alternative. Shutdowns of our inadequate refining capacity loomed as the inescapable alternative to pass-throughs of the higher raw material cost.

Two morals are clear from this confrontation and surrender. The first is that the American Government needs the proposed trust fund in order to bargain reciprocally with America's trading partners. The second is fortified by the experience of two world wars, and the all-out emergency control operation launched during the Korean War: we are on notice to expect nothing but what we are getting from any control system limited in its reach to the domestic American economy.

No program of controls or priorities which shirks the responsibility of bargaining evenhandedly for the international allocation of America's resources will work—internationally or domestically. But the more forcefully the Government moves to allocate its resources internationally, the less dislocative and onerous any restrictions on normal market movements will be on our own people. I do not mean to be in the position of identifying all our inflationary losses and irresponsibilities as international in character. But I do mean to be in the position of asserting that no progress will be made against inflation—not that we yet have begun to make any!—by the purely domestic expedients we have adopted. These domestic expedients are complicated because our Government has hesitated to grasp the neetle by bargaining for what the trade will bear internationally. I congratulate Senator Javits and Senator Stevenson for proposing the simple, workable and profitable off-shore rules of the road calculated to relieve the pressure for the complicated unworkable and costly controls with which we are saddled here at home.

Turning to the specifics of the Javits-Stevenson proposal, the place to begin is clearly with our proprietary agriculture exports. For the sake of simplicity in making the case for an export trust fund, I limited my proposal in my appearance before Senator Byrd's Subcommittee to food and feed crops. Although I was able in the colloquy which followed to mention the parallel breakout in cotton exports, I am glad Senator Javits in his September 13 statement noted Senator Talmadge's forthright complaint about the inflationary consequences of cotton exports following where wheat, soybean and corn exports have already led. As Senator Talmadge warned, the consequences to our our economy are already apparent in forced shutdowns of textile mills rich in unfilled orders but poor in the wherewithal to meet foreign bids for American crops and still sell at American price ceilings. The phenomenon of cotton export diversion and textile mill shutdown offers an eerie parallel to that of feed crop diversion and cattle herd and poultry flock liquidation.

Two practical considerations are suggested by the statements of Senator Javits and Senator Talmadge. The first is that China is now adding a formidable new dimension of continuous demand to the unprecedented and, as I believe, unquenchable money-good demand for American farm products from abroad. The second is that the Treasury, Agriculture and Commerce Departments have shifted their ground since the farm export boom took hold. Their original objection was based on an underestimation of foreign demand at any price. Now they are cautionsly advertising the magnitude of the farm export movement. In fact, they are basing their claim that the dollar has overcome its weakness on the strength of the farm export boom, which they are pooh-poohing until just a few months ago.

Contrary to the wishful thinking of the Treasury, Agriculture and Commerce Departments, however, the mere strength of the farm export movement, will not guarantee a return of strength for the dollar. On the contrary, the dollar has been weakest when the farm export movement has been strongest. This is not coincidence, but cause. Secretary Shultz has admitted that this country was "burned" (the word is his) when the Russian wheat deal sounded the signal for every American farm export customer to buy every pound of every food crop already in sight and still underground. If America was merely burned in the Russian wheat deal, she was positively charred in the orgy of speculation between April and June, 1973, which sent food prices soaring at rates not seen even in war-time and, at the same time, invited foreign buyers to settle in the cheaper dollars they were dumping, while still paying less in their own harder currencies.

The result of this bitter experience was forced liquidation by American food processors unable to compete in American dollars against the harder currencies pushing their raw material costs up out of their reach; it was gouging on the American consumer; and it lavished subsidies on America's foreign competitors. It's little wonder they are now her increasingly anxious creditors.

The Javit-Stevenson Bill puts considerable emphasis on the appropriateness of a set-aside up to 10 percent of our crop export availabilities for humanitarian donations to underdeveloped countries in danger of starvation. I endorse this in principle, but I would like to suggest what I can best call a bargaining approach to implementing it. I deplore the cruel, if unwitting hoax being perpetrated by theorists talking about the underdeveloped countries of the world coming of age economically and financially in this year of 15 percent money for non-prime borrowers and $5 wheat for prime takers. Such talk is disoriented to the point of being a passport to moral panic and political impotence. The immediate challenge is not to lend a helping hand to the developing nations to qualify as emergent economic powers. The urgency is to save them from the agony of famine. A full-fledged ordeal of the dimension prophesied a century and a half ago by Malthus will be the price humanity will pay if America fails to set its house in order forthwith, beginning with its ability to bargain for what the traffic will bear from its dollar-rich customers.

I see no reason for America not to bring her agripower to bear exactly as the oil producing countries are bringing their petro-power to bear, not least because I trust America to mobilize her agripower as a trusteeship for the world's have-nots and to set an example for the petro-powers to follow. Historically, wars, epidemics and ordeals of starvation have brought forced balance to the world's supply-demand food equation; and these calamities were borne in silence in the areas then insulated from the mainstream of world opinion. No area now is. It is easy to say that world opinion will not tolerate another episode of mass starvation. But world opinion will have no alternative to starvation unless America begins to husband her farm resources and match them against the financial revenues of its money-good, food-hungry customers. No other massive source of food production is available to feed the money-good world in the style to which it has become accustomed, while also doling out substance rations to the millions subject to starvation this year and next.

I suggest that the approach envisioned in the Javits-Stevenson Bill be broadened by being channeled through the United Nations. The spectacle it presents recalls the wry comment of the late, great Secretary of State, Dean Acheson, that Britain had lost an empire without finding a role. The United Nations has lost a mission without finding a role. It has demonstrated its uselessness as a peace-enforcing agency. Surely here is a responsibility which it is equipped without controversy to meet. The timelessness of channeling the Javits-Stevenson Bill through the United Nations is underscored by the admission of West Germany with her enormous financial strength, to membership. I believe, Senator Stevenson, that that dedicated statesman, your father, the memory of whose friendship I shall always cherish, would have welcomed this suggestion if this burning need had arisen during his lifetime.

Two alternative methods could be utilized if the United Nations were to be enlisted as the allocating and dispensing agency for the set-aside earmarked for the developing nations—which are also the starving nations. Theoretically, other food exporting countries could put up pro-rata tonnages. The practical alternative is for them to put up counterpart funds to match America's grants of aid in kind. This would leave America as the only significant source of supply, but it would provide for counterpart support matching American support. It is not inappropriate to note, that the financial power most critical of America is France, in whose African sphere of influence starvation has hit hardest.

A final word is in order on implementation of the procedure provided for in the Javits-Stevenson Bill. I suggest a simple adaptation of the war-time control materials plan devised under the pressure of World War II by the late Ferdinand Eberstadt. This approach won the war for us; and it can now win the peace for us. Appropriately enough, because food was a weapon then; and it is a weapon now.

I propose carrying the two-point clearance itemized in Section 202, A and B, one step further; to provide for the Secretary of the Treasury to invite all export customers of record to submit requests through their respective Central Banks for their share of the total allocation to be determined by deliberation between the Secretary of Agriculture and the Secretary of Commerce. No country which is a competitor of America's and a creditor of the dollar could refuse to comply with this procedure. The moment any of them did, all of them would. As fast as their requests were filed, the dollar would strengthen.

Of course all their requests would be inflated. The dollar would get its own back as fast as their requests were deflated! As Senator Javits' statement notes, bargaining over how much tonnage to ship in return for how much hard cash pay-back to nourish our muscle is the way to maximize our bargaining power by contrast with brandishing the embargo weapon which forecloses use of it.

Putting the Javits-Stevenson Bill in broad perspective, I think it realistic to say that its premise recognizes that the enjoyment of plenty has thrust us back into an economy of scarcity. Its effect would be to share the burden of inflation on a more equitable basis with our customers. They have used their power as creditors to force us to accept an intolerable share of the prevailing inflation, and to maximize the Americanization of their living standards at minimal cost. The machinery devised in the Javits-Stevenson Bill would redress the inequity, obliging foreign participants in America's unparalleled farm economy to shoulder their full share of the burden of supporting the American standard of living, and putting up the hard cash to minimize further inflationary erosion of it. The choice facing this Government between inviting Tokyo's $12 a pound price of beef to go to $20 and bringing milk, eggs, cereals and chicken to her deprived ghetto school children is easy to make. It is not, however, a choice which is properly that of this Government. The overseas customers for our crops have their own obligation to spare their children the cruel alternative.

My own proposal for mobilizing American Agripower stopped short at the creation of a trust fund for the defense of the international dollar without specifying any earmarked domestic uses for the proceeds. My reason for limiting my proposal in this modest way reflects my continuing fear of further dollar weakness. It expresses my strong disagreement with Secretary Shultz's view that dollar weakness is neither America's problem nor calls for any American response. It implements my observation that, the lower the dollar goes, the higher the cost of living and of doing business inside America will go.

In endorsing the Javits-Stevenson Bill, I offer no objection or demurrer to any of the desirable programs designated in it for financing from the proposed trust fund. I do note, however, that spending on what I regard as an insupportable scale is still being lavished on land diverted from production in this new age of scarcity, as well as on our so-called military assistance to countries which are able to bank us, but are not, and which are banking the presumed targets of our military assistance in this age of advertised détente. I hope that the funds pouring into the proposed dollar trust fund will not be drained for continued subsidy of such folly.

Finally, agreeing as I do on the claim of school lunch, child nutrition and related programs to top priority, I urge upon you the consideration that there is no short cut to welfare which side steps the first line of defense for welfare and against inflation represented by the international dollar. The way to get more benefit for the buck is to put more muscle behind the buck. The muscle is there to be flexed and used. Our farms are producing the sinews of war to win the battle of peace. I hope that our Government will back them up at the negotiating table. You Senators are taking the lead.

The CHAIRMAN. We will call on Mr. James Grant, Overseas Development Council.

STATEMENT OF JAMES P. GRANT, PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL

Mr. GRANT. Thank you, Mr. Chairman, Senator Stevenson.

With your permission, I would like to put my full statement in the record and summarize some of the highlights.

The CHAIRMAN. Your entire statement will be printed in the record [see p. 161].

Mr. GRANT. Thank you. I appreciate this invitation to testify before this committee on the subject of the world food situation and its implications for export and other policies of the United States. Together with others at the Overseas Development Council, notably Lester Brown, I have been following closely the emerging world food situation.

My conclusion is that the current international scarcity of major agricultural commodities reflects important long-term trends as well as the more temporary phenomenon of lack of rainfall in the Soviet Union and large areas of Asia and Africa. In fact, we are probably witnessing in the world food economy a fundamental change from two decades of relative global abundance to an era of more or less chronically tight supplies of essential foodstuffs despite the return to production of U.S. cropland idled in recent years.

In my judgment, this has a very profound effect upon the recommendations for export controls. If my analysis is correct, we are entering an extended period in which global grain reserves, which provide a crucial measure of safety when crop failures occur, are likely to remain extremely low, and in which little excess cropland will be held idle in the United States.

Meanwhile, the world has become overwhelmingly dependent on one continent—North America—for exportable food supplies. From a global perspective, then, the world is likely to be in a vulnerable situation on the food front in the coming decades. This global vulnerability in an area so basic to human welfare calls for strong policy responses.

First, measures must be designed to insure reasonable access to necessary food supplies to those who need them. Such an assurance probably must involve two elements: (a) Internationally agreed-upon guidelines defining the circumstances in which a principal supplier of an essential commodity may limit its exports of that commodity; and (b) cooperative international management of a new and expanded global food reserve system. The unilateral imposition of strong food export controls by the United States at this time, in my judgment, could be a highly irresponsible act in our increasingly interdependent world.

Second, special attention needs to be given to both the needs and the potentials of the poor countries. International competitive bidding for scarce food tends to drive prices beyond the capacity of the poorest nations to pay, and to severely reduce the possible food purchases of the world's poor, who already must spend most of their income on food.

This is an aspect that is recognized in the Stevenson-Javits bill.

These same forces are drastically curtailing shipments to poor countries under the food for peace program, Public Law 480, founded on the twin concepts of surpluses in the United States and need abroad, just as requirements of the poor abroad are rising

International food reserve proposals, and food aid policies in the United States, must take into account this special vulnerability of the poor when global supplies are tight and prices high.

At the same time, recognizing that many developing nations have vast unexploited agricultural potential, international efforts to aid agricultural development within poor nations must be substantially increased. Significant increases in food production are possible in these nations at far less cost than comparable increases in the more agriculturally advanced nations, benefiting thereby the American consumer, as well as the poor abroad.

Third, there is a similarly urgent need to evolve a cooperative approach to the management of ocean fisheries which provide so much of the world's protein for both human and animal consumption. The "commons" of the oceans are being overfished in many respects, and failure to develop more effective cooperative mechanisms will result in continued depletion of stocks, a reduction in catch, and rapidly rising fish prices. In this context, Americans have a major direct stake in the UN-sponsored Conference on the Seas to be held later this year in Santiago.

Fourth, the need to curb rapid population growth throughout the world is emphasized by our analysis of the world food scarcity situ-

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ation. Ever greater pressures are being put on the world's agricultural capacity as a result of continuing rapid population growth, making food more scarce for everyone. This, together with the increased consumption of the more affluent, renders difficult the dietary improvements for the poorest half of humanity needed before most have the motivation for smaller families.

In the context of the second and fourth conclusions, the congressional initiative to restructure the bilateral economic aid program to focus more directly on such key factors as food production, rural development, and population, respresents an important step in the right direction.

Mr. Chairman, my conclusion, in short, is that the changing nature of the world food situation requires measures which go far beyond export controls. And if export controls are applied in that context without the benefit of other management or new proposals, the adverse consequences could outweigh the benefits.

What is needed now are new approaches, including agreements on an international grain reserve system which might also be a system of export controls, on harvesting the seas, on cooperation in increasing food production in developing countries, and on reducing birth rates—the last two being long-range factors.

Decisions on any system of food export controls need to take into account the new global food situation, which increasingly requires international cooperation rather than unilateral action in the short term. Both U.S. and global mismanagement has produced soaring food prices. Five dollars a bushel, wheat for a sustained period, now means premature death for millions in developing countries. A man spending 80 percent of his cash income for food, as in the case of a large segment of mankind, cannot possibly increase his food expenditures enough to offset a doubling in the price of his principle food staple.

I would urge this committee, Mr. Chairman, to look at the total situation. It seems to me the proposals now before the committee represent commendable proposals in the sense that they are efforts to do something about the problem. But I do feel that a situation which seeks to keep the price of food low in the United States, and separate from the world market, at a time when we are entering a period of a decade or more of increasing global scarcity, will run into a great many problems, and will bring in many cases more problems than benefits.

The CHAIRMAN. Thank you very much.

Senator Stevenson?

Senator STEVENSON. Mr. Grant, in the long term, you indicated, and rightfully, that emphasis should be placed on increasing food production, not only in the United States, but the so-called third world. How do we do that?

Mr. GRANT. To increase food production, obviously there are more things that can be done in the United States; higher prices do have some effect on increasing production here.

The conclusion of our analysis is that the greatest potential for increasing low-cost food production in the world today lies in the developing countries. If you will turn to the charts on the last page of my statement and look to the bottom of the very last page, there is a table on unrealized production potential in India.

We see that in India, which is a country roughly comparable to the United States in terms of acreage, climatic conditions, and crops, they produced about 100 million tons of food last year.

The United States produced some 235 to 240 million tons of food. To increase food production in this country by an extra 100 million tons would require much more expensive use of inputs. We have passed the point of highest return on the use of fertilizers, herbicides, and the like.

Whereas in India, they have really a major organization problem; the benefits of fertilizer, herbicides, pesticides, water, et cetera, really haven't been brought to bear yet. So that 100 million tons of increased food production in India would provide a lot more cheap food for the world than an extra 100 million tons here.

This gets back to the question of how do you help the Indians and the Bengalees and the Pakistanis do this. This gets to the issue, then, of other legislation up before the Senate next week. There has been a major revamping of the development assistance legislation, as you know, Senator Stevenson, to take it away from focusing on traditional capital projects and to make it focus overwhelmingly on the rural sector, and to improve production capabilities of the farmers, particularly the small farmers.

This is one way to address the problem. A second way to address the problem obviously is to create a major new food reserve system, so that the reserves won't run out during a period of scarcity, as they have in this past year.

If you will turn to the same chart on the next to the last page, Senator Stevenson, it describes the total global situation and indicates that world food production was about 1,200 million tons last year.

The annual increase is about 30 million tons, of which we estimate roughly 22 million tons of the increase is consumed by population growth and about 8 million tons by affluence—the higher standards of living in the United States, in the Soviet Union, in Europe, and in Japan.

The United States has become overwhelmingly the principal world supplier, as you know. As that chart brings out, last year, of the seven major supplying regions, there were only two that had an exportable surplus.

We were by far any away the largest; Australia was a very laggard second. The other charts in my table show how world reserve stocks have dropped, and how we now have put all of our idle land back into production, so that the potential for this reserve is gone. We clearly need a new approach to building a world food reserve system to replace the one that has outlived its capacity in a world in which the world food demand is much higher than it was 10 or 15 or 20 years ago.

Senator STEVENSON. I agree with what you say, and in particular, the potential for increased food production now in the third world and to some extent in other countries, Australia and New Zealand, as you mentioned.

But it is going to take time and in the meantime, we are going to be faced with a continuing need, I think, to allocate increasingly scarce commodities, food, in the world. And if the Government doesn't intervene, that food will be allocated by market forces, which will allocate it, most of it, to a few developed wealthy countries.

Nobody is enthusiastic about export controls, perhaps least of all, me. My State is the biggest agricultural exporter in the Union. But I don't see any other way out. If I am right, we had better try to devise the most sensible and fair way of allocating scarce commodities, in order to feed the hungry world.

I think while you express some opposition to this, and in principal to export controls, your very statement of the enormity of demand of the world for food makes the case for them.

Mr. GRANT. It's a dilemma we face, it seems to me, like the dilemma faced by the President last spring when he imposed ceilings on the price of meat and food. It did serve to keep prices down, but it also induced certain forces that probably are going to result in less production this fall, and next year. And one of the real dilemmas, it seems to me, is if, for example, through export controls, we keep the price of wheat down to let's say $2.50 a bushel in the United States, while the price of wheat is $5 a bushel in Canada, one can then ask the question, in a world fertilizer shortage, where is the fertilizer going to go?

The price of fertilizer in Canada is going to be a lot higher, supporting $5 a bushel wheat, than in the United States, producing $2.50 a bushel wheat. Then if we try to put an export restraint on the fertilizer that would be flowing from the United States to Canada, this could backfire since Canada sells us far more fertilizer than we sell to it.

So, if we put a restraint on fertilizer, they will put a restraint on their fertilizer, and then where are we? It seems to me this is the dilemma we raise with controls. And this is why I have been particularly disturbed by the slowness with which Secretary Butz has responded to efforts to get a global look at this problem.

The FAO held a meeting on September 20 in Rome. Initially, the United States said it didn't even need to attend. There is a problem, and we are reluctant to talk about it. Secretary Butz is saying that we today have a balance between export availability and demands from abroad at given prices, at present prices.

Well, when the price goes high enough, supply and demand will balance, but it is at the cost of a lot of people not eating. As I said a moment ago, when the bottom half of the people in India spend 80 percent of their cash income for food, if the price goes up 50 or 60 percent, they eat less. It gives thhe balance the Secretary talks about, but at real cost to human survival among the poor.

I remember the days in Calcutta, in 1943, during the period of the great famine, when millions literally died on the streets. The grain stores were still open, they had their great bins of grain right on the edge of the street, and 10 feet away, there would be 5 families dying of starvation.

The market was in balance: The grain was available but at a terribly high price, a price the people who were slowly dying with each passing day couldn't afford. This is a little bit like the situation that we are facing, or threatened with in the future.

It will take a global effort to get on top of this. And as part of that global effort, some form of export controls, if they are worked out in agreement with other countries as with GATT on import controls, so they agree to the standards we apply, would be a part of this.

But for us to do it unilaterally, it seems to me, will solve some problems but raise others.

Senator STEVENSON. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. Wheeler, are you ready to proceed?

Mr. WHEELER. Yes, sir.

The CHAIRMAN. All right. Thank you, Mr. Grant. We certainly appreciate it.

[Complete statement of Mr. Grant follows:]

STATEMENT OF JAMES P. GRANT,[1] PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL

Mr. Chairman and Members of the Committee: I appreciate the invitation to testify before the Subcommittee on International Finance on the subject of the world food situation and its implications for export and other policies of the United States. Together with others at the Overseas Development Council, notably Lester Brown, I have been following closely the emerging world food situation. My conclusion is that the current international scarcity of major agricultural commodities reflects important long-term trends as well as the more temporary phenomenon of lack of rainfall in the Soviet Union and large areas of Asia and Africa. In fact, we probably are witnessing in the world food economy a fundamental change from two decades of relative global abundance to an era of more or less chronically tight supplies of essential foodstuffs despite the return to production of U.S. cropland idled in recent years.

If my analysis is correct, we are entering an extended period in which global grain reserves, which provide a crucial measure of safety when crop failures occur, are likely to remain extremely low, and in which little excess cropland will be held idle in the United States. Meanwhile, the world has become overwhelmingly dependent on one continent—North America—for exportable food supplies. From a global perspective, then, the world is likely to be in a vulnerable situation on the food front in the coming decades. This global vulnerability in an area so basic to human welfare calls for strong policy responses.

First, measures must be designed to ensure reasonable *access* to necessary food supplies to those who need them. Such an assurance probably must involve two elements: a) internationally agreed-upon guidelines defining the circumstances in which a principal supplier of an essential commodity may limit its exports of that commodity; and b) cooperative international management of a new and expanded global food reserve system. The unilateral imposition of strong food export controls by the United States at this time could be a highly irresponsible act in our increasingly interdependent world.

Second, special attention needs to be given to both the *needs* and the *potentials* of the poor countries. International competitive bidding for scarce food tends to drive prices beyond the capacity of the poorest nations to pay, and to severely reduce the possible food purchases of the world's poor, who already must spend most of their income on food. These same forces are drastically curtailing shipments to poor countries under the Food for Peace program (PL 480), founded on the twin concepts of surpluses in the United States and need abroad, just as requirements of the poor abroad are rising. International food reserve proposals, and food aid policies in the United States, must take into account this special vulnerability of the poor when global supplies are tight and prices high.

At the same time, recognizing that many developing nations have vast unexploited agricultural potential, international efforts to aid agricultural development within the poor nations must be substantially increased. Significant increases in food production are possible in these nations at far less cost than comparable increases in the more agriculturally advanced nations, benefiting thereby the American consumer as well as the poor abroad.

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[1] The views expressed in this statement are those of the individual, and do not necessarily represent those of the Overseas Development Council, or of its directors, officers, or staff.

Third, there is a similarly urgent need to evolve a cooperative approach to the management of ocean fisheries which provide so much of the world's protein for both human and animal consumption. The "commons" of the oceans are being over-fished in many respects, and failure to develop more effective cooperative mechanisms will result in continued depletion of stocks, a reduction in catch, and rapidly rising fish prices. In this context, Americans have a major direct stake in the U.N.-sponsored conference on the seas to be held later this year in Santiago.

Fourth, the need to curb rapid population growth throughout the world is emphasized by our analysis of the food situation. Ever greater pressures are being put on the world's agricultural capacity as a result of continuing rapid population growth, making food more scarce for everyone. This, together with the increased consumption of the more affluent, renders difficult the dietary improvements for the poorest half of humanity needed before most have the motivation for smaller families.

In the context of the second and fourth conclusions, the Congressional initiative to restructure the bilateral economic aid program to focus more directly on such key factors as food production, rural development, and population, represents an important step in the right direction. The Senate Foreign Relations Committee deserves congratulations for its leadership in this important field.

I will discuss these policy needs in more detail below, but first let me describe the current world food situation more fully. The news media have drawn attention to several factors contributing to the food scarcities of 1973. Among these are the poor harvest in Asia, the shortfall in the Soviet wheat crop, and the temporary disappearance of the anchoveta off the coast of Peru for several months in late 1972 and early 1973. But these are hopefully all short-term factors, and they should not be permitted to obscure other more fundamental long-term trends and forces that are altering the nature and dimensions of the world food problem.

POPULATION AND AFFLUENCE

During the 1960s, the world food problem was perceived as a food/population problem centered on the developing countries, a race between food and people. At the end of each year, observers anxiously compared rates of increase in food production with those of population growth to see if any progress was being made. Throughout most of the decade it was nip and tuck. During the 1970s, rapid global population growth continues to generate demand for more food, but, in addition, rising affluence is emerging as a major new claimant on the world's food resources. Thus there are now two important sources of growth in world demand for food.

At the global level, population growth is still the dominant cause of an increasing demand for food. With world population expanding at nearly 2 percent per year, merely maintaining current per capita consumption levels will require a doubling of food production in little more than a generation.

Throughout the poor countries, population growth accounts for most of the year-to-year growth in the demand for food. At best, only very limited progress is being made in raising per capita consumption. In the more affluent countries, on the other hand, rising incomes account for most of the growth in the demand for food.

In 1972, world cereal production totalled about 1,200 million metric tons. For the last decade the annual increase in global production has averaged 30 million tons. Of this, about 22 million tons are estimated to be absorbed each year by population growth, and about 8 million tons are absorbed by rising affluence.

The effect of rising affluence on the world demand for food is perhaps best understood by examining its effect on requirements for cereals, which dominate the world food economy. Consumed directly, cereals provide 52 per cent of man's food energy supply. Consumed indirectly, in the form of livestock products, they provide a sizable share of the remainder. In resource terms, cereals occupy more than 70 per cent of the world's crop area. In the poor countries, the annual availability of grain per person averages only about 400 pounds per year. Nearly all of this small amount, roughly a pound a day, must be consumed directly to meet minimum energy needs. Little can be spared for conversion into animal protein.

In the United States and Canada, per capita grain utilization is currently approaching one ton per year. Of this total, only about 150 pounds are consumed directly in the form of bread, pastries, and breakfast cereals. The remainder is consumed indirectly in the form of meat, milk, and eggs. The agricultural resources—land, water, fertilizer—required to support an average North American are nearly five times those of the average Indian, Nigerian, or Colombian.

Throughout the world, per capita grain requirements, both direct and indirect, rise with income. The amount of grain consumed directly rises until per capita income approaches $500 a year, whereupon it begins to decline, eventually leveling off at about 150 pounds. The total amount of grain consumed directly and indirectly, however, continues to rise rapidly as per capita income climbs. As yet, no nation appears to have reached a level of affluence where its per capita grain requirements have stopped rising.

Annual per capita beef consumption in the United States has grown continuously, from 55 pounds in 1940 to 117 pounds in 1972. During the same period, the American population has expanded by 57 per cent. Altogether, national beef consumption has tripled, making the United States a leading beef importer.

In the northern tier of industrial countries stretching from the United Kingdom and Europe through the Soviet Union to Japan, dietary habits more or less approximate those of the United States in 1940. As incomes continue to rise in this group of countries (which total some two-thirds of a billion people), a sizable share of the additional income is being converted into demand for livestock products, particularly beef. Many of these countries lack the capacity to satisfy the growth in their demand for livestock products entirely from indigenous resources. As a result they are importing increasing amounts of livestock products or of feedgrains and soybeans with which to expand their livestock production.

CONSTRAINTS ON EXPANDING THE WORLD FOOD SUPPLY

As world demand climbs due to these two factors, we face several important constraints in our efforts to expand global food production. The prospects for expanding the food supply depend on a wide range of economic, ecological, and technological factors. The traditional approach to increasing to increasing production—expanding the area under cultivation—has only limited scope for the future. Indeed some parts of the world face a net reduction in agricultural land because of the growth in competing uses, such as industrial development, recreation, transportation, and residential development. Few countries have well-defined land use policies that protect agricultural land from other uses. In the United States, farmland has been used indiscriminately for other purposes with little thought devoted to the possible long-term consequences.

Some more densely populated countries, such as Japan and several Western European countries, have been experiencing a reduction in the land used for crop production for the past few decades. This trend is continuing and may well accelerate. Other parts of the world, including particularly the Indian subcontinent, the Middle East, North Africa, the Caribbean, Central America, and the Andean countries, are losing disturbingly large acreages of cropland each year because of severe erosion. Pressures of over-population and over-grazing in the Sahelian zone south of the Sahara in Africa are contributing to the steady southward advancement of the desert. This process, if unchecked, will destroy an ecosystem which currently supports about 60 million people.

The availability of arable land is important, but perhaps even more important to the future will be the availability of water for agricultural purposes. In many regions of the world, fertile agricultural land is available if water can be found to make it produce. Yet most of the rivers that lend themselves to damming and to irrigation have already been developed. Future efforts to expand fresh water supplies for agricultural purposes will increasingly focus on such techniques as the diversion of rivers (as in the Soviet Union), desalting sea water, and the manipulation of rainfall patterns to increase the share of rain falling over moisture-deficient agricultural areas.

One of the key questions concerning future gains in agricultural production is: Can the more advanced countries sustain the trend of rising per acre yields of cereals? In some countries, increases in per acre yields are beginning to slow down, and the capital investments required for each additional increase may now start to climb sharply. In agriculturally advanced countries such as Japan, the Netherlands, and the United States, the cost per increment of yield per acre for some crops is rising. For example, raising rice yields in Japan from the current 5,000 pounds per acre to 6,000 pounds could be very costly. Raising yields of corn in the United States from 90 to 100 bushels per acre requires a much larger quantity of nitrogen than was needed to raise yields from 50 to 60 bushels.

What impact the energy crisis will have on food production costs and trends also remains to be seen. Rising energy costs may cause farmers engaged in high-energy agriculture, as in the United States, to hold down future production increases below current expectations. For other inputs used in modern agriculture—nitrogen fertilizer, for example—the rising cost of energy also can be important. Nitrogen fertilizer, for example, is often manufactured from natural gas, and energy is a dominant cost in its manufacture.

CONSTRAINTS ON PROTEIN PRODUCTION

In looking ahead, there is reason for particular concern about the difficulties of expanding the world protein supply to meet the projected rapid growth in demand that is now being fueled both by population growth and rising affluence. At present mankind is faced with technological and other constraints in increasing the supply of three principal sources of protein.

Two major constraints are operative in the case of beef. Agricultural scientists have not been able to devise any commercially viable means of getting more than one calf per cow per year. For every animal that goes into the beef production process, one adult must be fed and otherwise maintained for a full year. There does not appear to be any prospect of an imminent breakthrough on this front.

The other constraint on beef production is that the grazing capacity of much of the world's pasture land is now almost fully utilized. This is true, for example, in most of the U.S. Great Plains area, in East Africa, and in parts of Australia. Most of the industrial countries in which beef consumption is expanding rapidly, from Ireland through the Soviet Union and Japan, are unable to meet all the growth in demand from indigenous resources. Either some of the beef, or the feedgrains and soybeans to produce it, must be imported.

A second potentially serious constraint on efforts to expand supplies of high-quality protein is the inability of scientists to achieve a breakthrough in per acre yields of soybeans. Soybeans are a major source of high-quality protein for livestock and poultry throughout much of the world and are consumed directly as food by more than a billion people throughout densely populated East Asia. The economic importance of soybeans as a source of protein in the world food economy is indicated by the fact that they have become the leading export-product of the United States—surpassing export sales of wheat, corn, and such high-technology items as electronic computers and jet aircraft.

In the United States. which now produces two-thirds of the world's soybean crop and supplies about 90 per cent of all soybeans entering the world market, soybean yields per acre have increased by about 1 per cent per year snce 1950; corn yields, on the other hand, have increased by nearly 4 per cent per year. One reason why soybean yields have not climbed very rapidly is that the soybean, being a legume with a built-in nitrogen supply, is not very responsive to nitrogen fertilizer.

The way the United States produces more soybeans is by planting more soybean acreage. Close to 85 per cent of the dramatic four-fold increase in U.S. soybean crop since 1950 has come from expanding the area devoted to it. As long as there was ample idled cropland available, this did not pose a problem, but if this cropland reserve continues to diminish or disappears entirely, it could create serious global supply problems.

The oceans are our third major source of protein. From 1950 to 1968 the world fish catch reached a new record each year, tripling from 21 million to 63 million tons. The average annual increase in the catch of nearly 5 per cent—which far exceeded the annual rate of world population growth—greatly increased the average supply of marine protein per person. In 1969, the long period of sustained growth in the world fish catch was interrupted by a sudden decline. The catch has since been fluctuating rather unpredictably, while the amount of time and money expended to bring it in continue to rise every year. Many marine biologists now feel that the global catch of table-grade fish is at or near the maximum sustainable level. A large number of the 30 or so leading species of commercial-grade fish currently may be over-fished, that is, stocks will not sustain even the current level of catch.

World fishery resources represent an important source of protein. The 1971 catch of 69 million tons amounted to nearly 40 pounds (live weight) per person throughout the world. Of this catch roughly 60 per cent was commercial-grade fish, the remainder consisting of inferior species used for manufacturing fish meal, which in turn is used in poultry and hog feed in the industrialized countries.

The world's major source of fish meal is the anchoveta stock off the coast of Peru. Peru has supplied nearly two-thirds of world fish meal exports in recent years. But last year's disappearance of the anchoveta, at first regarded as a temporary, recurring natural phenomenon, is now being viewed with considerable alarm by many biologists. There are growing indications that the stock has been seriously damaged by over-fishing. If, as currently seems probable, the global fish catch does not continue rising in the next decades as it did during the last two, the pressures on land-based protein sources can be expected to increase substantially. Thus, consumers everywhere have a stake in the success of next year's U.N.-sponsored Law of the Sea Conference, where measures for the cooperative global management of oceanic fisheries wil be considered.

Although there are substantial opportunities for expanding the world's protein supply, it now seems likely that the supply of animal protein will lag behind growth in demand for some time to come, resulting in significantly higher prices for livestock products during the 1970s than prevailed during the 1960s. We may be witnessing the transformation of the world protein market from a buyer's market to a seller's market, much as the world energy market has been transformed over the past few years.

DEPLETED GLOBAL RESERVES

The period since World War II has been characterized by excess capacity in world agriculture, much of it concentrated in the United States. In many ways the world was fortunate to have, in effect, two major food reserves during this period. One was in the form of grain reserves in the principal exporting countries and the other in the form of reserve cropland, virtually all of which was land idled under farm programs in the United States.

Grain reserves, including substantial quantities of foodgrains and feedgrains, are most commonly measured in terms of carryover stocks—the amount in storage at the time the new crop begins to come in. Would carryover stocks are concentrated in a few of the principal exporting countries—namely the United States, Canada, Australia, and Argentina.

Since 1960, world grain reserves have fluctuated from a high of 155 million metric tons to a low of about 100 million metric tons. When these reserves drop to 100 million tons, severe shortages and strong upward price pressures develop. Although 100 million tons appears to be an enormous quantity of grain, it represents a mere 8 percent of annual world grain consumption—an uncomfortably small working reserve and perilously thin buffer against the vagaries of weather or plant diseases. As world consumption expands by some 2.5 percent annually, so should the size of working reserves, but over the past decade reserves have dwindled while consumption has climbed by one-third.

With respect to the reserve of idled U.S. cropland, roughly 50 million acres out of 350 million acres have been idled under farm programs for the past dozen years or so. Though not as quickly available as the grain reserves, most of this acreage can be brought back into production within 12 to 18 months once the decision is made to do so.

In recent years, the need to draw down grain reserves and to utilize the reserve of idled cropland has occurred with increasing frequency. This first happened during the food crisis years of 1966 and 1967 when world grain reserves were reduced to a dangerously low level and the United States brought back into production a small portion of the 50 million idle acres, and again in 1971, as a result of the corn blight in the United States. In 1973, in response to growing food scarcities, world grain reserves once more declined, and the United States again resorted to cultivating its idled cropland, but to a much greater degree than on either of the two previous occasions. Government decisions in early 1973 permitted much of the idled cropland to come back into production. In 1974, there will be no government payments to keep cropland idle.

From the end of World War II until quite recently, world prices for the principal temperate zone farm commodities, such as wheat, feedgrains, and soybeans, have been remarkably stable. In part, this is because throughout much of this period world prices have rested on the commodity support level in the United States. Since world food reserves may become chronically low and the idled crop acreage in the United States may decline sharply or even disappear entirely in the years ahead, there is the prospect of very volatile world prices for the important food commodities.

Projections for the coming year indicate that, even with all the stops pulled in the United States and with a record world grain crop forecast, world grain reserves will fall still further, to below 100 million tons. If this projection proves correct, we will then be entering 1975 with the lowest reserves in two decades, and no more idled U.S. cropland to turn to if needed. This leaves the world in an extremely vulnerable position. What will happen if the shortfalls of the past year are repeated in 1975? And, as our preceding analysis of global supply and demand trends indicates, such vulnerability may become chronic in the decades ahead as demand continues its inexorable growth. Such world dependency on the vagaries of a single year's weather cannot be viewed with complacency.

THE NORTH AMERICAN BREADBASKET

The extent of global vulnerability is particularly underlined by examining the degree of global dependence on North America for exportable food supplies. Over the past generation the United States has achieved a unique position as a supplier of food to the rest of the world. Before World War II both Latin America, importantly Argentina, and North America (United States and Canada) were major exporters of grain. During the late thirties net grain exports from Latin America were substantially above those of North America. Since then, however, the combination of the population explosion and the slowness of most Latin American governments to reform and modernize agriculture have eliminated the net export surplus. With few exceptions, Latin American countries are now food importers.

As the following table illustrates, over the past three decades North America, particularly the United States which accounts for three-fourths of the continent's grain exports, has emerged as the world's breadbasket. Exports of Australia, the only other net exporter of importance, are only a fraction of North America's. The United States not only is the world's major exporter of wheat and feedgrains, it is also now the world's leading exporter of rice. The United States and Canada today control a larger share of the world's exportable surplus of grains than the Middle East does of oil.

CHANGING PATTERN OF WORLD GRAIN TRADE (ANNUAL AVERAGE)

[Million metric tons]

Region	1934–38	1948–52	1960	1966	1972[1]
North America	+5	+23	+39	+59	+84
Latin America	+9	+1	0	+5	−4
Western Europe	−24	−22	−25	−27	−21
Eastern Europe and U.S.S.R.	+5		0	−4	−27
Africa	+1	0	−2	−7	−5
Asia	+2	−6	−17	−34	−35
Australia and New Zealand	+3	+3	+6	+8	+8

[1] Preliminary.

Note: Plus equals net exports; minus equals net imports.

Exportable supplies of the crucial soybean are even more concentrated than those of grains. Although as late as the 1930s China supplied nearly all the soybeans entering world markets, continuing population growth during the ensuing decades has gradually absorbed the exportable surplus. As of 1973 China is importing small quantities from the United States. The position of principal supplier has been taken over by the United States, which provided over 90 per cent of world soybean exports in the sixties and early seventies. With world demand for high-quality protein surging upward, Brazil—virutally the only other nation capable of producing soybeans on a sizable scale in the foreseeable future—has rapidly boosted its soybean production and exports. However, the United States is likely to continue supplying three-fourths or more of the world's soybean exports for many years to come.

At a time when dependence of the rest of the world on North American food exports is increasing so dramatically, there is also a growing awareness that this extreme dependence leaves the world in a very dangerous position in the event of adverse crop years in North America. Both the United States and Canada are affected by the same climatic cycles.

Considerable evidence has now been accumulated indicating that North America has been subject to recurrent clusters of drought years roughly every twenty years. The cyclical drought phenomenon has now been established as far back as the Civil War when data were first collected on rainfall. The most recent drought, occurring in the early fifties, was rather modest. The preceding one occurring in the early thirties was particularly severe, giving rise to the dust bowl era in the United States.

When the United States experiences its next streak of drought years, quite likely during the current decade, its impact on production will not likely be as great as during the thirties due to improved soil management and water conservation practices. But even a modest decline in production, given the rapid growth in global demand and extreme world dependence on North America's exportable margin of food, would create a very dangerous situation. It would send shock waves throughout the world triggering intense competition for available food supplies.

COMPETITION BETWEEN RICH AND POOR

The probable nature and results of global competition for tight food supplies have been foreshadowed this year. The increased demand for wheat and feedgrains is now clear. With respect to rice, it appears likely that rapidly rising rice purchases in the coming year by the increasingly affluent oil-rich nations of the Middle East and North Africa will help drive international rice prices up even further. Faced with very high international food prices, poor countries have been slow to purchase in advance of demonstrated need. But once their need is obvious, the generally tight world supply situation makes early delivery difficult if not impossible. Bangladesh, threatened with famine, has pressed with limited success for a diversion of Soviet-purchased grain to feed its population. India, confronted with an unanticipated need to import several million tons of grain on short notice, is now running serious risks of major food shortages in several areas.

As prices are driven up, seriously limiting the ability of the poor countries (and of the poor within those countries) to buy needed food, sources of concessionary food aid are drying up as well. Since the American food aid program under PL 480 is predicated upon the existence of commercial surpluses, these programs are now being cut severely in this time of scarcity. This year, shipments of wheat will be less than one-third those of two years ago, rice, feedgrains, and vegetables less than half, and milk shipments have dried up entirely.

ASSURED ACCESS

It is in the context of growing world dependence on the United States for protein and grains that we must view last June's abrupt unilateral imposition of export restrictions on soybeans and feedstuffs by the United States, and the implied threat of future controls on grains as well. By imposing export controls as it did, the United States placed itself in the morally untenable position of denying food to other nations, all of which have less food than we do. Our reliability and integrity as a trading partner was called into serious question; nations which we have urged over the last two decades to depend on the United States for food suddenly found their promised supplies cut severely without warning.

If the world food scarcity of 1973 could be viewed as a one-time aberration from future trends, the issues of export controls and global access would not have great significance. But if, as our preceding analysis indicates, we are entering a period of frequent, perhaps chronic scarcity, then a new approach is called for. The international community must devise guidelines covering the obligations of nations to share essential scarce commodities with the rest of the world, and defining the rights of access to these commodities of importing nations. Such an agreement for food, involving principal exporters (mainly the United States, Canada, Argentina, Australia, and Thailand) on the one hand, and importing nations on the other, might set a precedent of extreme future value for the United States in cases of nonfood resources such as oil.

Poor nations, who may be priced out of the market for badly needed food, deserve special rights of access to food supplies. This goal suggests two policy needs. First, financial aid will be necessary to enable poor nations to maintain minimum reserve stocks. This is embodied in the reserve proposals of the United Nations Food and Agriculture Organization described below. Second, the United States must devise new food aid legislation which allows for concessionary food aid to needy countries *whether or not commercial surpluses exist at the time.*

A GLOBAL RESERVE SYSTEM

The global food outlook calls for serious consideration of the creation of an internationally managed world food reserve. Just as the U.S. dollar can no longer serve as the foundation of the international monetary system, so U.S. agriculture may no longer have sufficient excess capacity to ensure reasonable stability in the world food economy over a multi-year period.

I do not mean to imply by my comments, which so far have focused on the problems of increased scarcity, that surplus production might not occur at some time in the future. In fact, there is the clear possibility that a combination of circumstances, e.g., restoring idle cropland to production in the United States, increased use of inputs to increase production in response to higher prices, and better than average rainfall conditions around the world, could lead to more production than demand in 1974 and 1975. This could lead to plummeting food prices, as in the past, which in turn could result in reduced production in the late 1970's. For this reason, there is a need to preserve some system to protect food producers from sudden, drastic price declines beyond their own control.

A world food reserve could be built up in times of relative abundance out of production surplus to immediate needs, and drawn down in times of acute scarcity. This would help to hold down price increases to the consumer during times of scarcity and to hold up prices to the producers during the inevitable periods of production in excess of immediate world demand. In effect, the cushion and stability that surplus American agricultural capacity have provided for a generation would be provided at least partially by a world food reserve system. A system of global food reserves would provide a measure of price stability in the world food economy that would be in the self-interest of all nations. The world community of course also has a basic humanitarian interest in ensuring that famine does not occur in the densely populated low-income countries following a poor crop year—an assurance the affluent nations may be less able to provide in the future if the current system of autonomous, nationally oriented food planning is allowed to continue without modification.

An important first step would be international adoption of the concept of "minimum world food security" proposed in early 1973 by Dr. A. H. Boerma of the FAO. Under the FAO plan, all governments—exporters and importers—would be asked to hold certain minimum levels of food stocks to meet international emergencies. The governments of participating countries would consult regularly to review the food situation, judge the adequacy of existing stocks, and recommend necessary actions. At the heart of such an arrangement would be agreement that requirements for stocks would be jointly considered and that costs would be shared by exporters and importers alike, with special provisions for assisting developing countries to build up their reserves. A revamped PL 480 program could have a major role in this. International agencies such as the World Bank, the International Monetary Fund, and the FAO should help poor countries to establish and maintain the reserve stocks necessary for self-protection against crop failures. World Bank President, Robert McNamara, has recently pledged the Bank's support for the FAO scheme. The political leadership of the United States is now essential if the FAO proposal is to succeed.

Any system of global food reserves, whether a single, centrally managed food bank, or the proposed FAO plan of coordinated national reserve policies, would provide a measure of stability in the world food economy that would be in the self-interest of all nations. The international guidelines called for above concerning the responsibilities of principal suppliers could be included within a reserve agreement. In times of acute scarcity, acceptance of such guidelines would be essential to the successful operation of the reserve system.

A system under which the United States would automatically impose farm export controls during times of global scarcity, as the bill presently under consideration would create, would seriously undermine international efforts to stabilize the world food economy and provide the minimal insurance against major disaster that the world requires. For this reason, I urge the Subcommittee to turn its attention away from the idea of mandatory farm export controls, and instead join Secretary of State Kissinger in an attempt to define the appropriate U.S. role in new cooperative global efforts and institutions which will serve the interests of all nations in the long run. Specifically, the Congress could endorse the Secretary's proposal at the General Assembly that a world food conference be organized under U.N. auspices in 1974 to maintain adequate food supplies.

THE POTENTIAL OF THE POOR COUNTRIES

One of the most immediate means of expanding the food supply is to return the idled U.S. cropland to production. Over the longer run, however, the greatest opportunities lie in the developing countries, where the world's greatest reservoir of unexploited food potential is located.

In those countries having the appropriate economic incentives, fertilizer, water, and other required agricultural inputs and supporting insitutions, the introduction of new wheat and rice varieties has increased production substantially. The jump in per acre yields in most developing countries appears dramatic largely because their yields traditionally have been so low relative to the potential. But today rice yields per acre in India and Nigeria still average only one-third those of Japan; corn yields in Thailand and Brazil are less than one-third those of the United States. Large increases in food supply are possible in these countries at far less cost than in agriculturally advanced nations if farmers are given the necessary economic incentives and have access to the requisite inputs.

India and the United States, for example, have about the same crop area with many similar characteristics. If Indian yield levels equalled those of the United States, its current annual cereal production would be 230 million metric tons rather than the present total of approximately 100 million tons. If rice farmers in Bangladesh attained Japanese yield levels, rice production would jump fourfold from 10 to 40 million tons. Brazil, by doubling its present cultivated area, could produce an additional 22 million tons of grain even if its currently low yield levels were not improved.

When global food scarcity exists and the capacity of the international community to respond to food emergencies has diminished, a convincing case can be made for strengthened support of agricultural development in such populous food-short countries as Bangladesh, India, Indonesia, and Nigeria. An almost equally convincing case can be made that in doing so, particular attention should be placed on effectively involving small farmers in the production effort. There is evidence that small farmers, when they have effective access to agricultural inputs as well as health and education services, engage in labor-intensive agriculture and generally average considerably higher yields per acre than do large farmers. This was documented in the statement submitted by Edgar Owens on June 12, 1973, to the House Foreign Affairs Committee in the course of its hearings on the Congressional initiative to restructure the bilateral aid program. This bipartisan legislative proposal introduced to the U.S. Congress in 1973 to restructure the U.S. Agency for International Development and increase by at least 50 per cent the support it provides for agricultural and rural development in the years immediately ahead is a timely and important initiative. This proposal seeks to capitalize on the unique capacity of the United States to lead an enlarged effort to expand the world's food supply. Not incidentally, the new approach of the aid bill would be valuable in helping to meet many of the long-range problems now facing the drought-stricken regions of the African Sahel.

Concentrating efforts on expanding food production in the poor countries could reduce upward pressure on world food prices, create additional employment in countries where continuously rising unemployment poses a serious threat to political stability, raise income, improve nutrition for the poorest portion of humanity—the people living in rural areas of the developing countries—and it could also, as I will discuss below, be a very important factor in significantly reducing birth rates.

SLOWING POPULATION GROWTH

The prospect of an emerging chronic global scarcity of food as a result of growing pressures on available food resources underlines the need to stabilize and eventually halt population growth in as short a period of time as possible. One can conceive of this occurring in the industrial countries as a result of current demographic trends.

In the poor countries, however, it will be much more difficult to achieve population stability within an acceptable time frame, at least as things are going now. For one thing, the historical record indicates that birth rates do not usually decline in the absence of a certain improvement in well-being—a reasonable standard of living, an assured food supply, a reduced infant mortality rate, literacy, and health services—which provides the basic motivation for smaller families.

In short, it is in the self-interest of affluent societies, such as the United States, to launch a major additional effort directed at helping developing countries to step up food production and generally accelerate the development of the rural areas, which contain the great majority of the world's people and most of the very poor. This effort would not only increase food production at a relatively low cost, but would also meet the basic social needs of people throughout the world. The latter is a prerequisite in lowering birth rates. Population-induced pressures on the global food supply will continue to increase if substantial economic and social progress is not made. Populations that double every 24 years—as many are doing in poor nations—multiply eightfold in scarcely 75 years!

The new bilateral aid proposals, with their emphasis on reaching the poorest sectors within developing nations and a complementary focus on rural development, represent a sophisticated and necessary comprehensive approach to slowing population growth. By placing an increased emphasis on meeting basic social needs, particularly in the rural areas—where the majority of the world's people live—the U.S. aid program can simultaneously help stem the rapid population growth which threatens the ultimate well-being of everyone, and help bring the needed increases in agricultural output.

CONCLUSION

The changing nature of the world food situation adds new reasons for improving mechanisms for working with other countries on new approaches to increasing and stabilizing world food supplies—through agreements on an international grain reserve system, on harvesting the seas, and cooperation on increasing food production in developing countries and reducing birth rates. Decisions on any system of food export controls need to take into account the new global food situation, which increasingly requires international cooperation rather than unilateral action in the short-term.

Both U.S. and global mismanagement has produced soaring food prices; $5 per bushel wheat today means premature death for millions in the deevloping countries. A man spending 80 per cent of his income for food, as is the case for a large segment of mankind, cannot possibly increase his food expenditures enough to offset a doubling in the price of his principal food staple. The world needs a better system for management. This point was forcefully articulated yesterday by Chancellor Willy Brandt of West Germany in his first address before the U.N. General Assembly. "Morally it makes no difference whether a man is killed in war or is condemned to starve to death by the indifference of others. We shall have to decide to break with the ritualistic traditions: he who proscribes war must also proscribe hunger."

Figure 1. Direct and Indirect Grain Consumption by Per Capita Income, Selected Countries

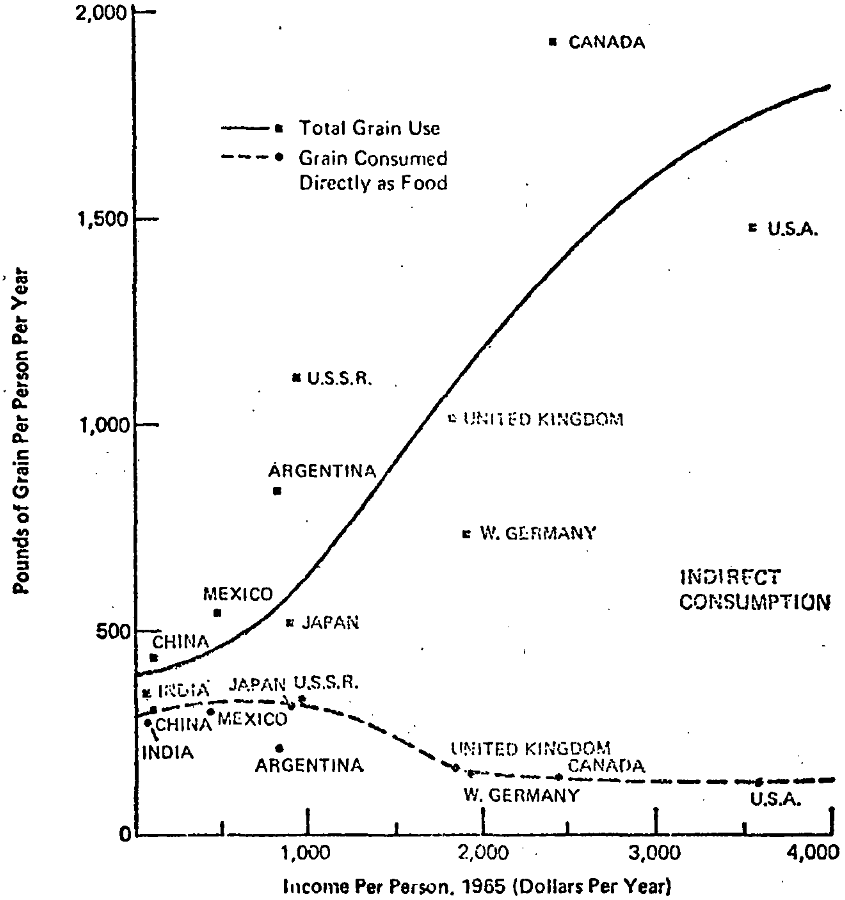
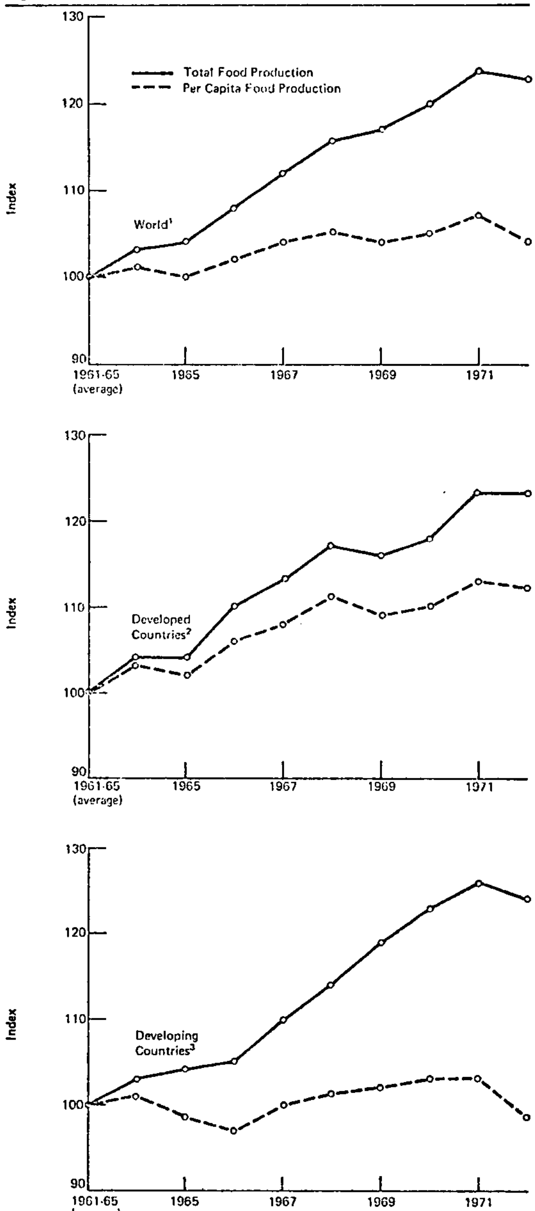


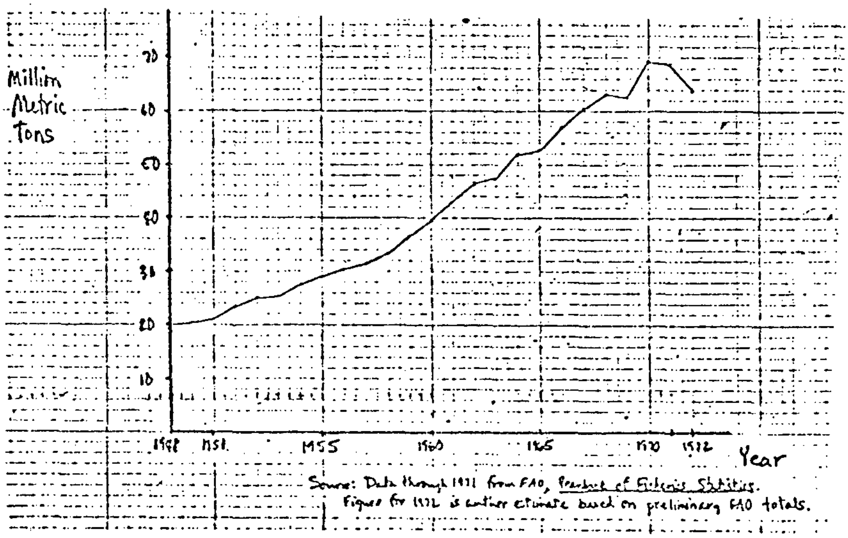
Figure 2. Total and Per Capita Food Production, 1961-72



[1] Excludes Communist Asia.
[2] North America, Europe, U.S.S.R., Japan, Republic of South Africa, Australia, and New Zealand.
[3] Latin America, Asia (except Japan and Communist Asia), Africa (except Republic of South Africa).
SOURCE: U.S. Department of Agriculture.

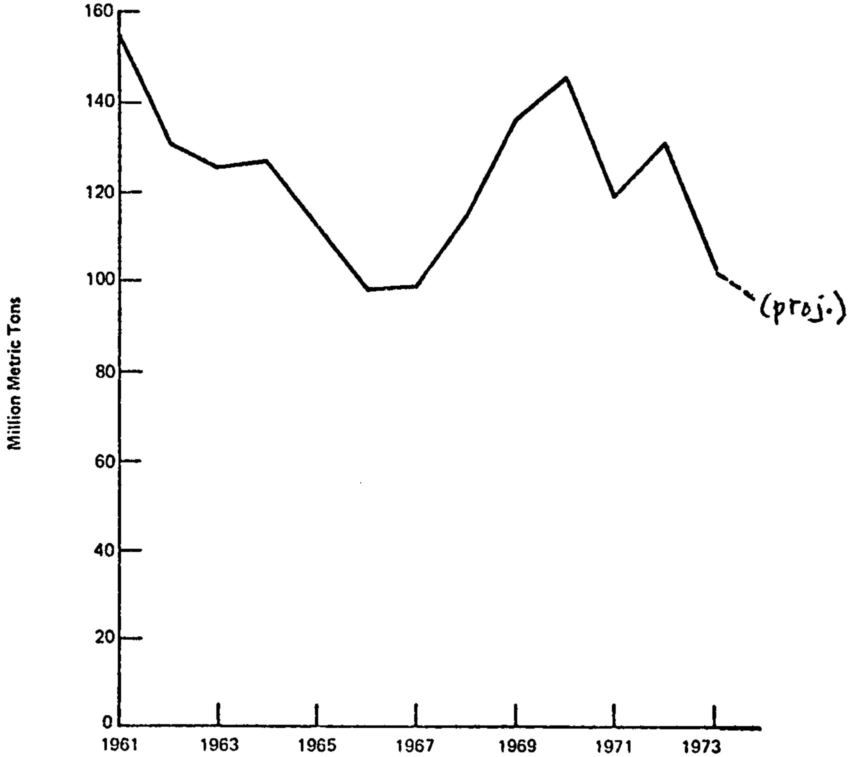
Unrealized Production Potential in India:	*Million metric tons*
Current Indian cereal production	100
Indian cereal production at U.S. yield levels (India and the U.S. have essentially the same cropland area—about 350 million acres.)	230

WORLD FISH CATCH, 1948–72 (LIVE WEIGHT)



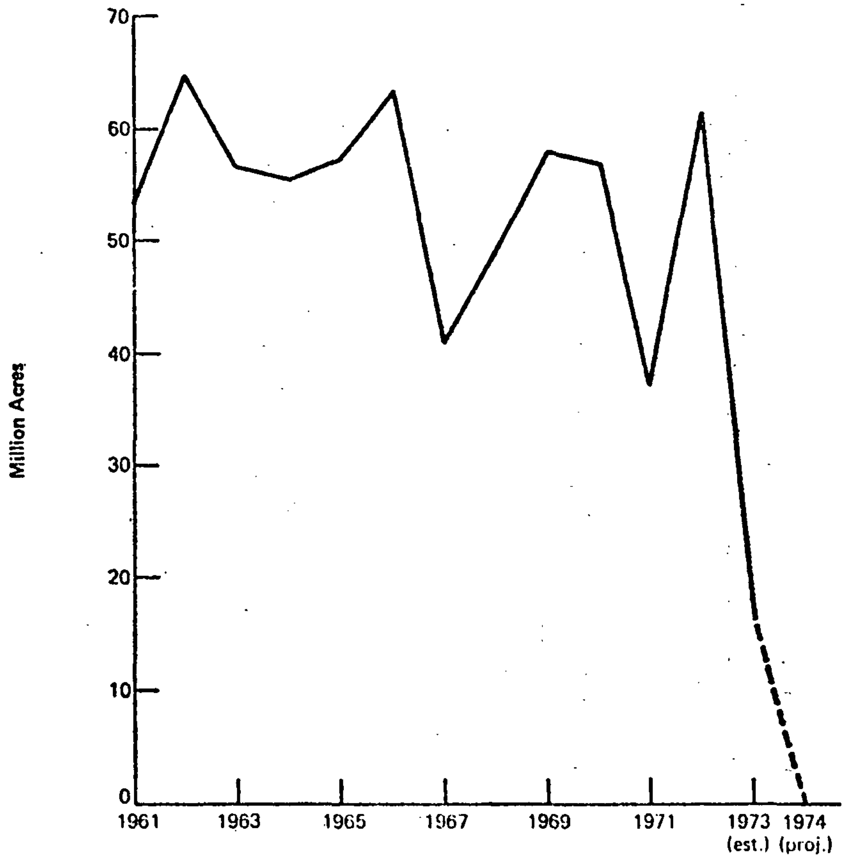
	Million metric tons
World Cereal Production, 1972	1,200
Average annual increase in world cereal production	30

Figure 3. Total Grain Stocks in Principal Exporting Countries, 1961-1974*



*Includes United States, Canada, Australia, Argentina.
SOURCE: U.S. Department of Agriculture.

Figure 4. U.S. Cropland Acreage Withheld from Production under Government Programs, 1961-1974



SOURCE: U.S. Department of Agriculture, Agriculture Stabilization and Conservation Service.

CHANGING PATTERN OF WORLD GRAIN TRADE (ANNUAL AVERAGE)

[Million metric tons]

Region	1934–38	1948–52	1960	1966	1972[1]
North America	+5	+23	+39	+59	+84
Latin America	+9	+1	0	+5	−4
Western Europe	−24	−22	−25	−27	−21
Eastern Europe and U.S.S.R.	+5		0	−4	−27
Africa	+1	0	−2	−7	−5
Asia	+2	−6	−17	−34	−35
Australia and New Zealand	+3	+3	+6	+8	+8

[1] Preliminary.

Note: Plus equals net exports; minus equals net imports.

STATEMENT OF EDWIN M. WHEELER, PRESIDENT, THE FERTILIZER INSTITUTE, WASHINGTON, D.C.

Mr. WHEELER. I assume the Senator has 12:30 in mind.

The CHAIRMAN. No; you may finish your testimony.

Mr. WHEELER. OK, sir.

Senator Sparkman, Senator Stevenson, I have filed the usual advance copy with the committee and I don't care to demonstrate that I can read it.

I should like to in 10 or 15 minutes cover our situation as rapidly as I can.

The CHAIRMAN. It will be printed in the record.

Mr. WHEELER. Thank you, sir. [See p. 183.]

As both you gentlemen know, you have had a good deal of complaints from our constituents on the fertilizer shortage, and if I might, Mr. Chairman, I would like to address myself to that in light of both the House-passed bill and this Javits-Stevenson bill.

For over 2 years we have been cautioning our Government and more particularly the Cost of Living Council and its predecessor the Price Commission, that continued restraints on U.S. domestic prices was going to drive more and more of this material into the foreign market.

I have brought with me this morning, Senators, a chart because, undoubtedly, Senator Stevenson, from the hell being raised in the State of Illinois, you are not unfamiliar with these numbers.

This, Senator Sparkman and Senator Stevenson, I think probably more graphically illustrates what is going on under phase 4 in the world situation than anything I know.

The price of anhydrous ammonia at Pascagoula this morning for export is about $75, because we can't print fast enough to keep up with it.

But suffice it to say it is about $70 to $75, short ton vessel.

The price of ammonia shipped to a retailer in the State of Illinois, at the production site, is restrained to $40.

And so it goes.

Urea, which is a derivative of ammonia, which is used heavily in the rice-growing countries and in our own cornbelt country, is frozen delivered to the dealer in Illinois this morning at about $67, depending upon what company it is, and how it is affected by the complexities of price regulations.

The urea export price is at least $110.

The President's special emissary to Pakistan has just returned and AID came on the streets yesterday with a request for 100,000 tons of urea to Pakistan right away.

In addition there is on the street this morning a request for 55,000 tons of urea to South Vietnam, this being the second attempt to get the tonnage.

The American industry long ago agreed with AID that we would not insist that this material be purchased in the United States, and as far as we are concerned they could buy it from anybody they wanted to.

In the last South Vietnam tender the Governments of South Korea and the Philippines announced they would not permit any further urea exports because of their own rice situation.

This tender for Pakistan and South Vietnam will not be covered at any price because there is a world shortage of fertilizer and more particularly urea.

We are the world's biggest producer of diammonium phosphate which is a phosphate made primarily, for Senator Stevenson's concern, comes out of the State of Florida.

The export price this morning, f.o.b. Tampa, short ton, is $100. The frozen price f.o.b. Tampa, domestic, is $75.

Now, you can imagine, with an industry that suffered losses in the magnitude in 1 year of over $200 million, with this kind of situation; what they were going to start to do.

They were going to start to export.

This chart, then, illustrates what has happened to the exports up to June 30 of 1973. In spite of some of the earlier testimony this morning, you will note at the time that the administration decided to start the devaluation what occurred.

Now, American fertilizer was a great buy. We devalued 10 percent. Zurich devalued another 20 percent. We devalued a third time, 10 percent. Two official and one unofficial devaluation.

The nation of Brazil has higher foreign reserves than does the country of India. We used to ship about 150,000 tons of material to Brazil a year. In this particular material, Brazil will buy better than 750,000 tons of diammonium phosphate, triple phosphate and so on, this coming year.

Now, it is not—I would have to tell you candidly, before somebody runs and gets some figures on me, that since June 30, 1973, the anhydrous ammonia line has risen very sharply and the urea line is going like this [indicating].

The world food price, of course, has much to do with this, in addition to the devaluation.

Every foreign government that I do business with, and that is all of them, I think, has a full blower program going on in their countries to indigenously produce food. They are extremely concerned about it. It is in interesting contrast to our own Government, who are doing not much more than putting our press releases on trying to get additional food production.

The only constructive step that has occurred in food production was when the Congress of the United States, over the administration's objection, decided to change our farm program and say to the farmers in the State of Illinois the Government now guarantees you *x* dollars on corn, and I was born and raised in Kansas, *y* dollars on wheat.

I think this was the most constructive step that has been taken, and I should add parenthetically to the best of my knowledge the only constructive step that has been taken.

Senator STEVENSON. Some 60 million acres are being put back into use.

Mr. WHEELER. That is correct; but, Senator, contrast this situation to Canada. In Canada, the Canadian Government got together with all of the people interested in agriculture inputs, fuel, machinery, fertilizer, transportation, to see how they could coordinate this thing and make it fit.

Our Government, on the other hand, issues a press release. We are going to put x millions of acres back into production with no forewarning to the input communities.

Therefore, our fertilizer companies were making 2- and 3-year offshore commitments, under contract, for hard dollars, generally Zurich-paid, and we were caught then with these long-term contracts, having gone through this surplus season, with no warning from our Government what they expected from us.

Now, if both you gentlemen will harken back to your days in physics—and I come now to the Stevenson bill, Sir Isaac Newton said for every action there was an opposite and equal reaction.

Today, as an example, the United States this year will export 14 million tons of phosphate rock. It is a semiprocessed material. Three million tons of that material goes to Canada. They have always been our customer. One million of it, for example, goes to Japan, and they have always been our customer.

Mr. Janeway this morning just absolutely ignored the critical factor. For that 3 million tons of phosphate we ship to Canada—and they cannot buy it now from Morocco or Tunisia, the other big producing countries, because they are sold out—the Canadians last year shipped us 5.2 million tons of potash.

We have two sources of potash in the United States, Carlsbad, N. Mex., who shipped into Alabama because of the freight distance through Memphis, and the State of Illinois, as an example, Senator, gets nearly all of its potash from Saskatchewan in western Canada.

UREA

This last year we imported 670,000 tons of urea into the United States, coming primarily out of Holland and Belgium, up in the Rotterdam area.

Now, if we carry this export proposition through, we are going to start putting bans on. Then we have got to be braced to pay the price.

There is no substitute for potash. Plants must have three elements: Nitrogen, phosphate, and potash. That is the way God created the order of things. Therefore, I want to caution the committee that before we willy-nilly begin to give the various Government agencies who have already screwed this thing up to a "fare-thee-well this almost unbridled power," we ought to think about the reciprocity that is involved in this situation, vis-a-vis, the United States is not God of the world and we have to import certain tonnages or then there goes the corn crop and the cotton crop.

Now, I would recognize that we are all concerned about food prices in the United States, but I would also urge the committee to consider on the enactment of this type of legislation that the quarrel of the United States is more with the price than it is with the supply.

In my judgment, Senator, as harsh as this may sound, it is better to let the marketplace allocate both food and fertilizer than try to get the collective geniuses that are set forth in this piece of legislation, and the House version, too, I might add, to try to come up with a wisdom of Solomon.

We had a conference the other day with Senator Humphrey and Dr. Dunlop and so on, and Senator Humphrey asked us about licensing, and my response was this: "Senator, if you know Solomon's area code, I will pay for the call on how we are going to make allocations."

Senator Sparkman, you will remember that the price of chicken in the United States, when it was decontrolled, rose to $1 because you have large poultry production in your State. The housewife would not pay $1 and the price is now down to about 60 cents.

The chicken farmer is making money. The housewife has a skillet full of chicken. And the marketplace itself decides it would not pay any higher prices.

Senator, this same thing is going on in beef in Illinois right now. The price of livestock in Chicago has sunk to somewhere around $38 or $39 from a high of $50 or $55, primarily because Mrs. Stevenson and Mrs. Wheeler said, "I am not going to pay the higher price."

I still think a free unfettered market is the best way to allocate it.

I would agree with the Senator from Illinois that it is probably not the least painful way. I think the Senators recognized this in allocating an additional $300 million to our school lunch program. I think we will probably have to do something on helping our elderly on fixed incomes overcome this problem.

But it is a better proposition to spend our own dollars with our own people and let our exports earn the so-called high dollar, because in due course, as Senator Stevenson said, when the fuel begins to get rough in Illinois, you have to say to your Illinois farmers, now, this oil is coming from overseas. It has got to be paid for. The only way we can pay for these imported oils, potash, et cetera, they have to be paid for by American exports.

Of course, the one reservoir of exports is American agricultural output.

Now, Senator Sparkman is an old timer. He has been around here a long time. And I am confident if we give the American farmer the agricultural bill we have, the new one, the additional 50 million acres, the high price of corn at the country elevator in Lincoln, Ill., this morning, you are going to be amazed at how this production begins to pick up.

In the wheat country where I come from one of my retailers called me the other day and said, "Ed, the Kansas wheat farmer is going to plow up everything but the old family cemetery, and he is eying that." They are really going to produce.

Admittedly, we have a year's lag. But I think you are really going to be amazed at what our farmers are going to do this coming year.

So I urge you, when you talk about these various export licensing bills, to think about the absolute inequitable way that the Department of Commerce and the Secretary of Agriculture handled the soybean thing. They cut 50 percent regardless of whether that country had been a long-term customer of ours.

I ask you to think about the opposite reaction we can get from countries we must import from, and that this bill, Senator Sparkman, have real consideration in your committee before it comes out.

Gentlemen, I appreciate the opportunity of being here this morning.

The CHAIRMAN. Well, thank you very much, Mr. Wheeler. I think you have given us a lot to think about.

I take it that you say if you give the farmer a chance he will produce the food we need. Is that right?

Mr. WHEELER. I think, Senator Sparkman, the farmer is the most economic man in the United States. I admire that man beyond about anybody in this country.

If you go back, Senator Stevenson, I don't believe you were here then, but in the midsixties, when we had the starvation situation occurring in India, we encouraged the American farmers to really open the throttle and then sold the grain under Public Law 480, and if you recall, in 2 years we had wheat in damn near every building in the United States but the Senate Office Building.

In less than 2 years it was staggering.

Then we had to go back and say don't raise so much, cut way back.

I happen to believe, along with you gentlemen, that we have come into a new era in agriculture. We have sold the people in Europe and Japan on the American way of life. And they are going to have it. Even the Eastern bloc can't resist it.

We are turning down orders right and left right now out of the Eastern bloc for fertilizer, simply because we can't produce it. We can't ship it.

Phosphate producers in Florida are plagued with electrical outages. The People's Republic of China wants to buy from us. We don't have it.

But all around the world the populous expects the good life, and that means high-protein diet. So I think in the long pull, American agriculture has arrived at some kind of a millenium.

In other words, Senator Stevenson, you will enjoy touring downstate Illinois for the next several years.

The CHAIRMAN. Senator Stevenson?

Senator STEVENSON. I certainly agree that American agriculture is the envy of the world and the marvel of efficiency. But when I travel in downstate Illinois, I find the farmers need an allocation program, they need diesel fuel, they need propane, they need gasoline, or they can't produce. That is another scarce commodity that somehow or other, if production is to be increased, we are going to have to allocate to certain essential industries, including farmers, and also essential public service.

They need petroleum, they need energy, they also need fertilizers and they don't have enough fertilizer. They don't have enough fertilizer in Kansas as well as in Illinois.

Mr. WHEELER. That is correct.

Senator STEVENSON. Some of us have urged the Cost of Living Council to take action to eliminate those price differentials that you mentioned. If, for example, the Cost of Living Council were to decontrol fertilizer prices, would the farmers then have enough fertilizer? Would that do it?

Mr. WHEELER. We probably will be able to supply the corn belt with sufficient phosphates. We will not, Senator, unless we have a very mild winter, be able to supply them with sufficient anhydrous ammonia next spring. We are one of the biggest users of natural gas in the United States for feed stock, we use about 450 billion cubic feet a year in our anhydrous ammonia plants.

If we have an extreme cold winter in the United States, those plants obviously shut down until the weather modifies. It is at the very best, Senator, going to be extremely tight, because the Cost of Living Council keeps vascillating and vascillating.

This morning, I reported to Dr. Dunlop that one of my principal producers in Florida was having his final marketing conference for 1974, there is 120,000 tons of material not committed, they want to know what they are going to do with this price thing.

One of the biggest producers in the country called me a little bit later, in fact, here at the hearing, and said, you can tell the Cost of Living Council, if they deregulate, we will guarantee an additional 5 percent over and above what we delivered in the United States last year, which for the industry as a whole was a record 43 million tons.

But we have to have decisions, because there are enough foreigners in the United States to start a revolution trying to buy fertilizer. Now, some of my producers, you may not think this is statesmanlike, sir, but some of my producers approach me on this basis:

If the Government doesn't give a damn about making this decision, why should we worry about it? I go to a meeting in the Secretary of Commerce's office saying, we have to get these exports up. I was at a House hearing yesterday where they were crucifying me for exporting. We have a heck of a thing in this whole agricultural thing, Senator Stevenson, for want of a consistent policy.

You probably saw in the Wall Street Journal this morning, the elevators at Houston are plugged again. There are hopper cars down there, unloaded, and we can't get them to Florida to load phosphate for Illinois.

Senator STEVENSON. You say even with the price decision of the Cost of Living Council, the fertilizer producers are going to be short of natural gas. Here we go again. Maybe we need an allocation program that will allocate to that essential industry sufficient natural gas with which to produce anhydrous ammonia.

Mr. WHEELER. Yes; we are going two directions on this. We are trying to get the Federal Power Commission to set a priority.

Day before yesterday, Congressman Reuss of Wisconsin introduced a bill giving statutory priority. I think it has about as much chance as a Zeppelin in getting through this room, but at least we are beginning. We talked to Governor Love about this situation. They are beginning to listen at least.

But always with this tremendous demand, and Illinois is typical, it is delays, delays, delays.

Senator STEVENSON. I think you have made a case very effectively against controls. I would hope that if we did have to move with some allocations program for the fertilizer, we would recognize that farmers need fertilizer from whatever source including the fertilizers from Canada——

Mr. WHEELER. We have the same thing with Mexico, too.

Senator STEVENSON. And Mexico.

I would hope such a program might recognize such special relationships and continue to provide for exports to those countries, because of our dependence on imports from them.

Mr. WHEELER. But you see what bothers me is the way they arbitrarily said on soybeans, 50 percent, irrespective. That was just a blind, unreasoned decision, and that is what frightens our friends in Canada, and in a number of other countries.

Will we have the same policy? Will we just say 50 percent? Further, I think, Senator, we have to recognize that we are either going to ship grain into Southeast Asia and India or fertilizer. You can't say to a billion people, "To heck with you; we are not going to ship you the grain or the fertilizer."

Now, the green revolution rice absolutely has to have heavy applications of fertilizer or it won't match the old traditional production. So that in the United States, we think it necessary as hell to have the best of all possible worlds; we have got ourselves a situation in food and fertilizer somewhat akin to the Master with two loaves and three fishes. And we are in for a tough couple of years until this thing rights itself.

I wish I had a panacea to offer you; I don't. But I really think in the long pull, sir, a free marketplace will do a better job allocating it than five buildings downtown can do. Because they haven't done too hot so far.

Senator STEVENSON. I agree, there is no question about that. I abhor controls. We are all looking for a way out of them. But it is hard to find.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, we thank you very much. We will recess the committee until 2 p.m. today.

Thank you very much.

Mr. WHEELER. Thank you both.

[Whereupon, at 12:40 p.m., the hearing was recessed, to reconvene at 2 p.m., this same day.]

[Complete statement of Mr. Wheeler follows:]

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EDWIN M. WHEELER
President

September 24, 1973

The Honorable John Sparkman
Chairman
Senate Committee on Banking,
Housing and Urban Affiars
Room 5300
New Senate Office Building
Washington, D. C. 20510

Dear Senator Sparkman:

On behalf of The Fertilizer Institute I want to express appreciation for this opportunity to present to the Senate Banking Committee information which we think is critical to any consideration of fertilizer embargoes as might result should S. 2053 be enacted. I would explain that The Fertilizer Institite is the national association of U. S. fertilizer producers, dealers and other groups involved in marketing fertilizers, domestically and internationally. For domestic purposes, our members represent approximately 80% of the fertilizers delivered to American farms.

With the information subsequently presented, we trust that your committee will fully recognize the detrimental effects of any type of embargo on fertilizers. These products are truly international commodities and their international trade is intricately related to America's capability for food production. Any export ban or licensing system would result in great disruption of not only international trade of the product itself, but food production as well.

It is manifestly apparent that the nation's agricultural machine must now go to full throttle production. Even with record crops of feed grains, wheat, soybeans and high cotton production we will not emerge with any increased inventories. Indeed, there is growing concern that a year from now the inventories of these commodities will have further shrunk. We can only hope that August 1975 will finally see a build-up of reserves. Looking to 1980, it is now estimated our import bill on oil will be $20 billion per year. To pay for this oil an ever increasing agricultural export program is a must for our country. There is no choice.

We believe that in in the next seven years U.S. farmers will be using about 60 million tons of fertilizer annually, compared with an estimated 43.4 million in 1973. This means we must have additional production facilities as soon as they can be built. This is particularly true where, as now, we have a period of a super heated economy delaying construction and making leadtime three years where two is the norm.

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An embargo in the face of unrealistic economic controls on products sold in the domestic market will preclude the building of new plants. It is an undeniable fact that:

	EXPORT PRICE	U.S. PRICE
Anhydrous Ammonia (f.o.b.)	$ 60	$ 40
Urea (del.)	100	67
Triple Superphosphate (f.o.b.)	98	55
Diammonium Phosphate (f.o.b.)	110	75

Our exports are the money maker. Indeed, it could be said they are subsidizing U.S. farmers.

While you have your own data on construction costs for new plants, I invite your attention to the data of Mr. J. F. Babbitt, president of Agrico Chemical Company, in a speech he gave recently setting forth their ideas on the subject:

ELEMENTS OF NEW PRODUCT COSTS

	AMMONIA	UREA	DAP	GTSP
Raw Materials (Gas, Rock, Sulfur, Ammonia)	$20.00	$27.98	$35.51	$20.30
Production, Selling, Transportation, Terminaling and Administrative Expenses	36.79	29.95	23.78	21.22
Depreciation and Interest Expense	9.11	8.84	10.51	8.44
Profit Required to Earn 15% DCF	9.66	9.62	10.60	9.04
Total Price Required to Justify New Capacity	$75.56	$76.39	$80.40	$59.00
	Delv'd.	Delv'd.	F.O.B.	F.O.B.

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You can easily see that Phase IV restraints do not warrant new plants. Accordingly, embargoing fertilizer will not increase our capacity -- far worse, it will discourage expansion.

Secondly, I cannot conceive of a U.S. policy which would cut off countries such as Canada from receiving U.S. fertilizer, particularly phosphate rock. Canada is presently purchasing over three million tons of rock a year almost exclusively from the U.S. Shutting this flow off could have disastrous results on Canadian farmers. Mexico, too, is in much the same situation although this country gets some material from African sources. We would be naive, indeed, if we did not think that Japan, France, Italy, Germany, Brazil, India, Pakistan, among others in addition to Canada and Mexico would bring intense pressure at the highest level of government. Consider too, the position of retaliation we would be in. Again, looking at Canada, what would they do about the five million tons of patash we buy a year from them? Ammonia in the Pacific Northwest is already tight. Would not Canada be sorely tempted to restrict the southward flow of Canadian ammonia? Why should the Collier Plant at Cooks Bay, Alaska be prevented from exporting? One could hardly imagine that urea ever reaching Iowa or Illinois no matter what the price. Beker interest revived nearly 750,000 tons of phosphate tonnage shutdown because of the glut. Their entire efforts have been to the export market -- is it equitable to say to them or their foreign customers, you must give this market up and sell at low prices in the U.S. (how will this tonnage be equitably allocated?) for whatever time the embargo stays on?

This, of course, raises the next issue: Embargo? For how long? With no possible relief on P_2O_5 until 1976, is that the duration of the proposed embargo? Candidly, I don't think we will ever again be in a surplus position on anhydrous ammonia, urea or ammonium based on U.S. resources. Does this proposed ban envision an embargo in perpetuity on nitrogenous materials?

A <u>temporary</u> embargo on soybeans means an important nation must draw down all inventories and substitute other foodstuffs to get by. The nations most affected can get by until shipments resume this fall. Even the high officials of our government who imposed the ban deplored it, knowing (1) that our national reputation for contractual performance was badly tarnished, (2) that our reputation as a dependable long term supplier was greatly damaged, (3) that we are losing badly needed foreign sales to off-set our deplorable trade balance deficit. We would repeat these errors if we embargoes fertilizer, but it would be worse for none of our export customers can obtain fertilizer from other sources. World fertilizer supply (except for potash) is very tight. Are we prepared as a government to say to South Vietnam, Bangladesh or, for that matter Brazil, Italy, or Canada for at least one year the United States doesn't care what your next year's harvest is? Again -- the embargo route would mean several years if that is the method selected to "balance" supply.

By any measure an embargo on fertilizer would be a disastrous route. To forego $500 million a year in export fertilizer sales only compounds the magnitude of the error.

Two active positions are needed.

First. We must have immediate action by the Federal Power Commission to assure the industry of an adequate gas supply not only this winter but in the years ahead. Serious gas disruption this year will be calamitous in view of almost non-existent inventories.

Second. The Cost of Living Council must recognize the tremendous disparity between world price and domestic price. Cost of Living Council must recognize the need for the industry to earn a rate of return commensurate with not only the tremendous capital now invested, but equally urgent, the new capital required. Failure to afford immediate relief precludes the U.S. fertilizer retailer and farmer from being able to compete for the limited supply. Our Board of Directors and an Ad Hoc Phase IV Committee representing large producers as well as retailers, investor-owned and cooperatives, voted on August 1, 1973 to seek a complete exemption on both price and profits. Not one attendee urged an export embargo.

It is obvious that one result would be that prices would rise. There can be no doubt on this score. They must and should rise if the necessary profits are to be generated. Only an unfettered market will determine the level; however, if the law of supply and demand works its will, as it always does, then the American farmer will get his fertilizer. Considering that last year the farmer paid $60 a ton less for ammonia than he paid in the mid 1950's, a substantial price increase should be no cause for alarm. If $80 a ton for ammonia going on $1.30 corn is a good deal, then $160 ammonia (a most unlikely figure) going on $3.00 corn (a highly likely figure) is still a good deal. In fact, this increase for ammonia would increase production costs of corn only 5.85 cents. (Based on 120 lbs. N/a and a yield of 100 bu/a, a ton of ammonia with 1640 lbs. N would fertilize 13.67 acres. or 1367 bushels of corn.) Against $3.00 corn, this is an increase of less than 2 percent.

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As indicated on the next two charts, fertilizer is the best buy of all farm inputs. Our farmers can easily pay these badly needed increases. Failing that, the farmer endangers his future supply of nutrients.

Sixty day freezes and embargoes are politically attractive. The chaos they wrought is so self-evident that we should not go down that road again. They are not substitutes for sound economics. If we want to maximize U.S. farm production and assure the farmer of adequate fertilizer, we should permit the law of supply and demand to work unfettered.

Respectfully submitted,

E. M. Wheeler

EMW/ees

Enclosures

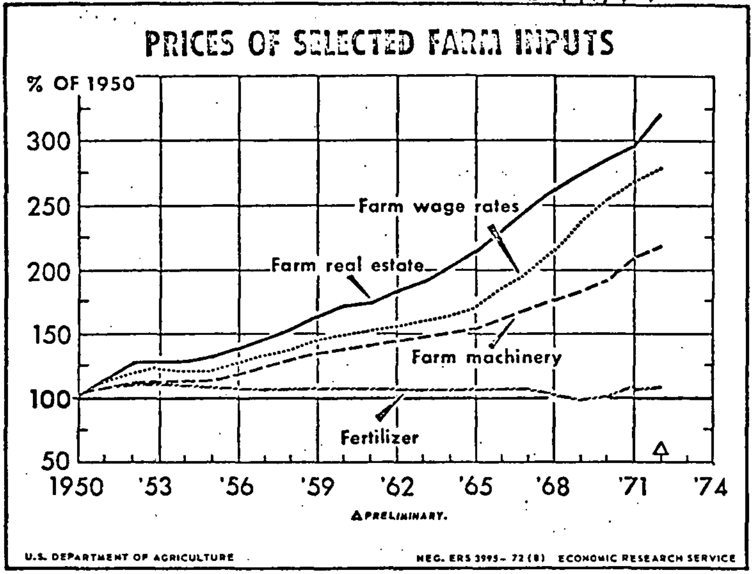

Figure 11

Prices of selected farm inputs, 1950-72

(1950=100)

Year	Farm wage rates	Farm machinery	Fertilizer	Farm real estate
1950	100	100	100	100
1951	111	108	106	115
1952	118	111	108	126
1953	121	112	109	128
1954	120	113	110	126
1955	121	113	108	131
1956	126	118	106	137
1957	131	123	106	146
1958	135	129	106	152
1959	144	134	106	163
1960	148	138	106	171
1961	151	141	107	172
1962	155	144	106	182
1963	159	146	106	189
1964	163	149	105	202
1965	171	154	106	214
1966	185	160	106	231
1967	199	167	106	246
1968	216	175	103	262
1969	238	184	99	275
1970	255	194	103	286
1971	268	207	107	298
1972[1]	278	218	109	320

[1] Preliminary.

Chart #2

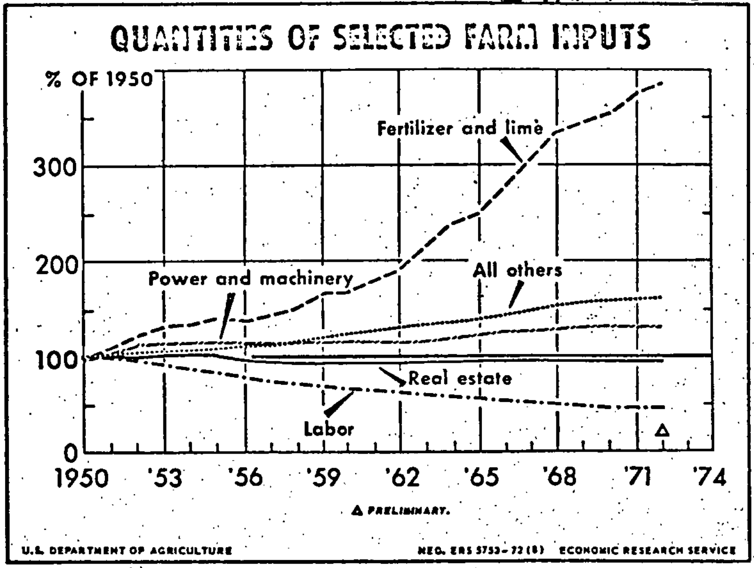

Figure 10

Quantities of selected farm inputs

(1950=100)

Year	Labor	Farm real estate	Mechanical power and machinery	Fertilizer and liming materials	All other inputs
1950	100	100	100	100	100
1951	100	101	106	112	104
1952	96	100	111	122	107
1953	92	100	114	131	106
1954	88	100	114	134	107
1955	85	101	115	141	110
1956	80	98	115	138	113
1957	75	97	114	144	111
1958	72	95	115	150	117
1959	70	95	116	169	123
1960	67	94	115	169	123
1961	65	94	114	181	128
1962	62	93	115	194	131
1963	60	94	116	219	134
1964	58	95	118	238	137
1965	55	95	122	250	139
1966	51	94	127	281	143
1967	50	95	127	312	147
1968	48	95	129	334	151
1969	47	95	130	344	155
1970	45	95	129	353	158
1971	45	94	129	372	158
1972[1]	44	93	130	383	160

[1] Preliminary.

AFTERNOON SESSION

Senator STEVENSON. The committee meeting will come back to order.

The next witness is Mr. Philip Trezise, of the Brookings Institution.

STATEMENT OF PHILIP TREZISE, BROOKINGS INSTITUTION

Mr. TREZISE. Senator Stevenson, it is necessary for me to say that I am speaking as a private citizen, and not as a representative of Brookings in this testimony. I will not address myself to any of the legislation before the subcommittee in detail.

But I would like to say a few words about export controls as a general proposition and then offer some thoughts as to alternative ways of getting at the kind of problem that the subcommittee is concerned with.

It is apparent that export controls are in vogue in the world now. Mr. Janeway this morning spoke about the Canadian controls on crude oil, and on the attempt, which apparently will be successful, to operate a differential price system on Canadian exports of oil to the United States under which American buyers will pay 40 cents a barrel more than consumers and refineries in Canada.

Canada, Australia, the European community, Argentina, Brazil, I believe, have or have had limits on their exports of wheat and coarse grains in recent months.

Nearly every exporter of scrap iron—scrap steel—in the world has an export control system. Mexico, I learn, has controls on exports of steel products to the United States, which have had the effect of a dramatic decrease in shipments to the United States from Mexico.

And, of course, we have had our adventure in export controls on soybeans, which only recently came to an end.

Now, the common denominator of all of these export control arrangements is that the perpetrator of the export controls seeks to put on somebody else the burdens that otherwise might fall in part on him. In other words, when a country imposes export controls, it is seeking to reduce the flow of goods from its territory and thereby to reduce the pressures on price levels in its own country.

Naturally, the pressures on prices in other countries, in the importing countries, are increased. And this evidently seems to a great many people a reasonable way to do things.

Now, quite apart from what I consider the deplorable international manners that are represented by export controls, I think there are some serious questions as to how well and how sensibly these approaches really work for the countries that use them.

The United States—and I will focus on the United States because I am an American, but my comments I think would apply quite generally—the United States is a major exporter of commodities, the biggest in the world, of grains, soybeans, and of many other things. We are also the biggest importer of a great many commodities, of tropical products, of raw materials of various kinds, of energy materials.

And it is not all that clear, in a world in which every country unilaterally decides how it will operate its commercial activities abroad, what our net position will be.

Mr. Janeway began this morning with some remarks about the Canadian controls on crude oil. Well, we are paying the extra costs there. It is not easy in an abstract way to learn who would win and who would lose in this competition to have export controls, but I do not think you can suppose a priori, that we are going to benefit.

It is not clear either when you begin one of these processes how it is going to come out in its particulars. Take the pressures we have had over a number of years now, which I have lived through, to put controls on exports of logs and lumber to Japan.

Now it happens, contrary to Mr. Janeway's comments this morning, we are a net importer of lumber; we are not the world's big exporter of lumber; we import more than we export.

Now, if we had pursued the proposition, which many people pushed hard, that we should by statute limit our exports to Japan, it would have been natural enough and reasonable enough for the Japanese to turn to Canada, which is our supplier, and bid up the price of Canadian lumber. And that we would have come out ahead in such a sequence of events is by no means self-evident.

As for our putting export controls on lumber, then why shouldn't the Canadians? In fact, why shouldn't they put export controls on lumber and raise the price for us?

I would like to spend a little more time on the soybean episode, which is recent in memory and which I think deserves more examination perhaps than it has been given in public discussion thus far.

In the first place, the administration imposed controls on soybean exports in a period of great emotion and understandable concern. As I understand it, the impetus came from a survey of the trade which suggested that the commitments for exports were well in excess of any likely availabilities of soybeans or soybean products.

Well, it turned out, I also understand, that these so-called commitments proved to be in very large part water; they were not firm contracts; they were suppositions; they were inquiries; they were ideas that people had, but in practice most of them did not come to pass.

And the expected surge of demand that these so-called commitments represented was largely illusory. Since early September, soybeans have been freely available in the world and I would commend to you the fact that the price of soybeans in June was $11 a bushel, and now in a free market, the spot price is $6.50 or thereabouts, and the future prices, at a time of great sensitivity in price, because as you know, Senator, the harvest is coming in, the futures are in about the same range as the spot price.

Another feature of the soybean episode was that we began with the idea that we would control only exports of soybeans and soybean products along with cottonseed and cottonseed meal and oil. But it soon became evident that that was not enough, so we had to add all of the substitutes and part substitutes that one can find for soybeans and cottonseed. And soon we had controls on fish oil, linseed oil, safflower seed, sunflower seed, tallow—41 additional products in all.

In other words, we were quickly into a great big bureaucratic enterprise, reminding me of the days when we used to have extensive controls on shipments to the Eastern Europeans and Chinese; a monstrously difficult and wasteful affair.

Well, there we were within a few days with not 2 products, but 43 or more products. I understand, in fact, that the thought which was then current, that we should put export controls on wheat, was discarded in considerable part because people began to reflect that controls on wheat would have to be followed by controls on corn, sorghum, rice, on every cereal grain that we produce. And the administrative implications of that looked just too large to be acceptable.

These are some of the aspects of the soybean occasion which I think deserve mention.

But the enduring, lasting effect of this brief incident will be on our reputation for reliability as a supplier of soybeans. Here is a product we have worked hard and successfully to develop as a major export. It is a crop that evidently we are peculiarly favored in, in that our soil and our climate and our farm skills operate together to give us a very large international advantage in producing soybeans.

I remember taking part in negotiating efforts over the years to keep our free access to the European community for soybeans, and to get reductions in Japan's import tariffs on soybeans. We were successful in both efforts. We built our export total up from $450 million in 1960, to nearly $3 billion in the 1972–73 crop year. We have, in other words, a major export crop and we have long been accepted as a credible, secure supplier.

In one ill-advised, unnecessary action, we succeeded in making our customers doubtful about our reliability in the future, and gave them every reason to reflect on the alternatives that they may have open to them.

I hope that this will prove to be less damaging than it now seems, likely to be, but I heard yesterday the Secretary of Agriculture refer to the decision to put on export controls as a "disaster."

Finally, let me say that I find it rather distressing that people who have been in the forefront of the fight against import protectionism seem to be ready to embrace export protectionism.

In principle, there is no real distinction between putting the burdens of your price problems on somebody else and putting the burdens of your import adjustment problems on somebody else.

When the European community puts on restrictions on its agricultural imports, it is in effect putting the burden on North America, the efficient supplier of agricultural goods. And when we put on export controls on soybeans, we were trying to put the burden to the best of our ability on Japan and Western Europe.

Now, I submit this is not a desirable act to get into, and that the sooner the United States can lead the world away from this trend, the better we shall all be. I am not suggesting that there is no kind of export authority that can be entrusted to the Executive of the United States. I do not see the future that clearly. I think that some residual power to impose export controls under some conditions is probably necessary.

I do not have the draft of a model bill before me. But I would hope that the Congress in considering the future of export controls would consider that basically these should be the last resort and not the handiest thing to do anytime a temporarily embarrasing market situation appears.

I would go beyond that and say that there are other things that we can try to do. We are having trade negotiation in the near future and I would suggest that this is an occasion on which we could try to insure in the international community, within limits, against the kinds of short supply situations we have been going through in the last year, and that there are practical and cooperative ways to do that.

Last week we had a meeting at the Brookings Institution of private economists from Japan, Western Europe, Canada, and the United States, in which we discussed the outlook for international cooperation in agricultural trade. We came to some conclusions which I think bear upon the subcommittee's present endeavors.

We felt, first of all, that the time has come to make another attack on protectionism in agriculture, which means an attempt to give greater concern to efficient production in agriculture around the world, but notably in Western Europe and Japan and North America.

And that means basically that Japan and Western Europe need to begin reducing the levels of effective protection on many agricultural products, and indeed that we on our own part need to begin a more liberal import approach toward certain agricultural goods.

But going along with an effort to provide greater market access and more liberal trading opportunities, we felt that the international community could now reasonably begin to work cooperatively toward the only real answer to temporary shortages in the future, that is, stocks or reserves.

Now, in the past, as you know, reserves of the basic commodities in the world have been held mainly by the United States and Canada and in both cases principally as a matter of the accident of our farm policies not as a deliberate attempt to provide insurance against shortages.

When we built up our surplus of wheat and corn, it was because we had a farm policy which was a bit out of hand. The same was true of Canada. In practice, however, in 1966–67, and again in 1972–73, these stocks proved to be of great benefit to the world.

Indeed, we would have had a desperate time last year without the carryovers that we and the Canadians had to dispose of on the world market.

What we are suggesting is that we now make the holding of stocks, the holding of reserves, the responsibility of everybody who can afford to hold them. That means basically that the European community, the United States, Canada, Japan, and Australia would undertake jointly to hold agreed levels of reserves of the principal foodstuffs, the oil seeds and the grains. We would agree on how and at what pace we would acquire stocks, because clearly at the moment, supplies are not adequate for a rapid buildup. And we would agree on how we would dispose of those stocks, and under what conditions.

Now, this could be elaborated in a number of ways. But what we would be trying to do would be first to assure against the kinds of situation that happened last year, when unexpectedly the Soviet Union became a large purchaser in commercial markets for the grains.

I might say that the Soviet purchases last year were the largest increments of commercial grain purchases ever to occur. I might say also that the Soviets bought virtually all of the 30 million-odd tons of grain that they needed to buy at bargain prices.

It is almost incredible that this additional claim on world supply should have been exercised with virtually no effect on price.

And this was not only an American action, although we had a good share in it, but every supplier—Canada, Australia, the European community—provided grain to the Soviets at subsidized, bargain rates. And that surely should never happen again.

Well, if we were to have international stocks held by governments, paid for by governments, on a basis that was fair to all, another occasion like the Soviet shortfall would have to meet by common action we would have to decide what to do with our stocks. And I would warrant that we would not give the Soviets an extraordinary and unnecessary bonus in those circumstances.

Second, you could build into a stockpiling understanding a commitment on the part of the grain producing countries to add to their stocks when production exceeded some normal level.

Now, Mr. Janeway this morning was suggesting we shall never again be in a period in which prices will be soft and world supply will be depressing the market.

That may be so, but it is not self-evident, nor even, I would say, likely. There is still much to be said for the concept of buffer stocks, purchases in times of excess output and sales under agreed terms in times of shortfall, on a year-to-year basis.

I am not talking about major changes, such as we had last year, but year-to-year fluctuations in supply. You could use the buffer stocks on an international basis to everybody's advantage, but particularly to the advantage of the large grain producers who need from year to year some reasonable assurance about the extent of the likely fluctuations in the prices they will receive.

And finally, and I imagine that Jim Grant spoke at length about this this morning, no approach to international reserves can fail to consider the problem that is general among the poor countries, which by and large do not have the financial capabilities for building up reserves against the kinds of contingencies which are more likely to come to pass there than anywhere else.

India got through the past bad crop year because it had a grain reserve of 9 or 10 million tons. Without speaking from any particular knowledge about Indian policies, I think that India would have had a widespread calamity but for this reserve, not only because the grain supplies in the world were tight, but because shipping was also tight. It is very doubtful that India could have met its problem this past year without its reserve to call upon.

Now, what we have suggested is that the rich countries could take it on themselves to help finance the buildup of reserves on a shared basis, among themselves and with the poor countries.

The amounts that we are talking about, it seems, are not terribly large. India—leaving China outside of the picture—represents about one-third of all of the consumption of the developing world. So, if India could find 10 million tons of prudent and reasonable reserve, one might suppose that 25 or 30 million tons would be adequate for the kinds of contingencies that you could possibly assure against. And since, in any event, the poor countries would hold some reserves, one could guess that the richer more affluent world would need to finance 10 or 12 million tons of total reserves for the less well-off countries taken together. In normal circumstances, the cost might be in the order of a $1 billion, divided among countries whose gross national product is approaching $3 trillion.

Well, that is one line of approach, the buildup of international stocks by all of us on an agreed basis, on a shared-cost basis. This would be something new in the world. It wouldn't be easy to negotiate; in fact it would be immensely difficult. But people have been scared enough, perhaps, and impressed enough by what happened in recent months to take this seriously now.

And I would commend it to the subcommittee as an approach for the longer run, far to be preferred over a unilateral export control actions.

The other thing I would like to suggest very briefly is that in the forthcoming GATT round, our negotiators might well raise the question of whether GATT should not have more—should not have stronger provisions to deal with export controls.

As I have suggested, export controls and import restrictions are identical in principle. The GATT in its present form has a very limited and relatively useless provision—well, there are several points in GATT that deal with export controls, but none of them provide any real limitation on the unilateral, unrestricted right of individual governments to do what they please.

I would say that you could write into a revised GATT provisions requiring closer consultation when export controls are inevitable. You could write in a provision calling for equity of treatment between exporters and importers. You could provide for retaliatory rights when people did not observe their commitments in the GATT. In other words, you could parallel the provisions applying to import commitments on the export side. And do it to our general advantage.

Senator STEVENSON. Thank you. I think almost every member of this committee would agree with you, certainly, that export controls should not be the first weapon in the arsenal. Controls should only be a last resort. That, at least is the way I approach the subject.

But we are acting upon certain assumptions; namely, that assumption you referred to that they may be necessary at times. The world may be faced with shortages without the reserves that you discussed, and during such times I suppose you either allocate supplies on some basis, or let the market to do it. And the market will allocate whatever is available to those who pay the highest price, to the exclusion of people who are hungry in the developing world.

It is my impression that India has just about run through its reserves, if it has not done so already, and in addition we have famine in West Africa and Bangladesh. The Pakistanis are short, and we have run out of our reserves. Until we have the reserves, what do we do? What kind of a mechanism do we have available on that standby basis? That is what we are worrying about at the moment.

I think it would be helpful to us if you could also consider the bills we have before us, including the so-called Javits-Stevenson bill, which suggests a new system for allocating scarce commodities. It is confined to agricultural commodities. I am not convinced it is right, but it might be better than what we have now.

Let me ask you specifically about fertilizer. You referred to a sort of "no-win game," yet if others are playing it and the United States does not even compete, it certainly cannot win. Others would pass their costs on to us.

Now, fertilizer strikes me as a rather significant case. Our supplies of food for internal and foreign consumption depend on fertilizer, and at the moment we do not have sufficient fertilizer to expand our stocks of food for export as well as for local consumption.

Wouldn't it make sense to control exports of fertilizer?

Mr. TREZISE. Well, Senator, I am not an expert on fertilizer, but from what I have discerned in my reading on the subject, the first thing we ought to do is take off price controls on fertilizer.

Now, if it is to the advantage of the American fertilizer producer to export, it is hard for me to see any great moral defect in the exporter; he is doing what he is supposed to, I suppose.

But it does seem to me the administration is on a poor kick to be enforcing a lower price at home than abroad and therefore allowing. or really giving impetus to exports.

So, the first thing I would do would be to get rid of the price controls. I imagine if you got rid of the price controls, the problem would sort itself out rather quickly.

Senator STEVENSON. Some of us have urged the administration on several occasions to decontrol the price of fertilizer.

This morning I asked the representative of the fertilizer industry if, when fertilizers were decontrolled, we then would have sufficient supplies with which to meet the domestic demands, and the answer is "No," because, perhaps among other reasons, there is insufficient natural gas with which to make fertilizers, including the nitrogen fertilizers and hydrous ammonia. So, even with the decontrol of prices, we apparently would not have enough fertilizer.

Mr. TREZISE. I suppose that I could answer that by saying one regulation follows another. I think there is some case for saying we do not have enough natural gas, because we have a regulation on the price of natural gas.

But that may be getting somewhat afield.

Senator STEVENSON. We do not have enough oil, which is unregulated, too.

Mr. TREZISE. Well, the truth is, Senator, that we have been in a period unprecedented since the industrial revolution, when every major country and a good many minor developing countries have been at the peak of their business cycles together. We, the Germans, the Japanese, the British, everybody has been up at the top together. And demands on world supplies for everything have been strong. I listened to Mr. Janeway this morning on cotton. You know there is no shortage of cotton in the world; as a matter of fact, cotton production and consumption are about even. But the demand for textiles is running away with things, and the textile people, who see things apparently with a great deal of optimism, are desperate to keep up with the wonderful market opportunities that are open.

For the time being, we are going to have high prices on cotton. This is not a permanent situation, any more than we are going to have these other commodities at current high levels. The cycle is going to change. Everybody has a tight money policy now—we have; the Germans have; the Japanese have. Next year many of these commodity prices are going to be much lower; in fact, we are going to have some very unhappy people around and the world will look very different.

Now, coming back to your question on fertilizers, it is perhaps callous to say to, but I don't see that you can do anything but distribute the fertilizer that is available on the basis of the market, and work our way through this period. Next year and the year after we will find there are more supplies of fertilizers because these things look pretty good on the agricultural front for quite a little period ahead and the fertilizer industry will respond to market prospects.

While the Russians and others are rebuilding their basic stocks, we have got a strong agricultural market. So, while I am not one to say that the market forces are everything, and that we should never interfere, there are times when interference is going to make things worse, and maybe the best thing is to ride it out.

Senator STEVENSON. I think if everybody could be as confident that it would change in the near future, they would be much more inclined to ride it out.

Mr. TREZISE. If you accept Mr. Janeway's doctrine that we have got a boom in agricultural goods forever, that is a very different situation. I did not hear any evidence that he offered, other than his assertion.

On the basis of the physical facts, it does not look as though it is going to be so.

Senator STEVENSON. Many of these factors are unpredictable. Some are not. Some can be measured with some precision. We can be certain the world's population is going to continue growing; we can be certain that in many parts of the world at least the per capita consumption within that expanding population is going to increase, and that with growing affluence, at least in certain parts, the forms of consumption are going to change.

We have already seen growing consumption of animal protein, which is a highly inefficient way of consuming protein.

Now, weather, you cannot predict. This was a very good crop year in the United States, probably the best, but it is simply unpredictable.

But within that mix, those you can predict all indicate growing demands as you look around the world, and at least I do not see the potentials for increasing the production to meet this demand.

Others this morning indicated that there were these potentials for increasing production in the third world.

Mr. TREZISE. I agree, the underlying trends are for a strong demand for foodstuffs in particular, and for the short run we have the aftermath of the big shortage of last year.

So, no doubt your corn farmers and soybean growers are in very good shape for some period ahead.

But I would suspect that technology and productivity will come along too and that while I look with you for a strong agricultural market for a long time, I would not look for $5 wheat continuing for a very long time.

You know we have had an unusual period, and there will be a return to more normal relationships between supply and demands, always leaving aside a great big crop failure somewhere. That is the reason I suggest we should be prudent about a stock policy and we ought to act at a time when perhaps we can get other rich countries to help pay for it.

Senator STEVENSON. Thank you, very much.

That concludes the hearing. The meeting is adjourned.

[Whereupon, at 4:55 p.m., the hearing was adjourned.]

[It was requested that the following documents be made part of the record:]

TOWARD THE INTEGRATION OF WORLD AGRICULTURE

A Tripartite Report by fourteen experts from:

The European Community

Japan

and North America

Washington, D.C.
September 21, 1973

TRIPARTITE MEETINGS ON AGRICULTURAL TRADE

Brookings Institution, September 17-20, 1973

Participants:	Europe:	Francesco De Stefano Centro di Specializzazione e Ricerche Economico-Agrarie per il Mezzogiorno Portici (Napoli)
		Wolfgang Hager European Community Institute for University Studies
		B. Heringa Former deputy director-general of Agriculture European Commission
		Max Kohnstamm European Community Institute for University Studies
		John Pinder Political and Economic Planning, London
		Adrien Zeller Agriculture economist, former administrator at the European Communities
	Japan:	Yujiro Hayami, Tokyo Metropolitan University
		Kenzo Hemmi, University of Tokyo
		Hisao Kanamori, Japan Economic Research Center
	North America:	Edward R. Fried, Brookings Institution
		Jimmye Hillman, University of Arizona
		D. Gale Johnson, University of Chicago
		Philip H. Trezise, Brookings Institution
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Publications in the series of tripartite reports sponsored by the European Community Institute for University Studies, Brussels; the Japan Economic Research Center, Tokyo; and the Brookings Institution, Washington:

<u>Reshaping the International Economic Order</u> (1972)

<u>Reassessing North-South Economic Relations</u> (1972)

<u>World Trade and Domestic Adjustment</u> (1973)

<u>Toward the Integration of World Agriculture</u> (1973)

FOREWORD

In September 1973 the ministers of nearly one hundred countries represented in the GATT at a conference in Tokyo agreed to launch the next round of multilateral trade negotiations. Again, the issue of how to include agricultural trade will have to be faced, politically sensitive and technically complex though it is. Indeed, the present precarious situation in world agriculture makes it essential to devise new approaches to this familiar, stubborn, and urgent problem.

A group of private economists from the European Community, Japan, and North America met in Washington, September 17-21, 1973, to examine agricultural policies in each of their countries and to consider how needed changes in these policies could be linked with greater security of world grain reserves, greater stability of world agricultural prices, and enhanced opportunities for international trade in agricultural markets. This report summarizes their conclusions. Those who participated and signed the report did so as individuals, speaking only for themselves; their views should not be attributed to the organizations with which they are associated.

The meeting was sponsored by the Brookings Institution (the host organization), the European Community Institute for University Studies, and the Japan Economic Research Center. Philip H. Trezise of the Brookings Institution served as chairman. The conference was the fourth in a continuing series sponsored by these organizations to examine international economic policies from the three geographic perspectives.

A grant from the Charles F. Kettering Foundation and support from the Ford Foundation helped to cover the costs of United States participation.

Kermit Gordon, President
The Brookings Institution

SUMMARY

No problem in international economic relations in recent years has been more intractable than trade in agricultural commodities. For two decades every effort that has been made to improve the conditions of agricultural trade has failed. Governments invariably have chosen to give priority to domestic farm policies--whatever their merits--and to forego the benefits of international specialization.

The question now is whether the changed scene in world agriculture will make possible more success in the forthcoming GATT negotiations on world trade. Farm prices are at historic highs. Supplies are tight, and world demands are rising. Reserves, especially of wheat, are at low levels; and the outlook, at least through the next crop year, is for buoyant agricultural markets, so that agricultural trade negotiations can be undertaken without the pressures created by sagging world prices.

Furthermore, recent events have shown the vulnerabilities of past agricultural arrangements. Last year's exceptionally bad harvest brought the Soviet Union into world markets for large quantities of cereals, which it was able to purchase by making separate deals with the principal suppliers--the United States, Canada, Australia, and the European Economic Community-- at bargain prices. These Soviet purchases, coupled with strong demands from other sources, created heavy pressure on supplies and prices and led a number of countries to place controls on their agricultural exports. Thus, if there were poor crops in a few major producing countries, the world would be

without the reserves needed to meet food requirements. And importing nations have been brought face to face with the realization that adequate supplies of agricultural products at stable prices can no longer be taken for granted.

In these circumstances, any effort to improve the conditions of world trade in agriculture will need to deal with two interconnected issues. The first is the familiar one of trying to reduce the high levels of agricultural protection so as to make more effective use of the world's agricultural resources. The other is to provide assurances that farm products will be available in sufficient quantities to meet all likely contingencies.

It is extremely doubtful that either of these conditions can be achieved independently of the other. If a negotiation can make reasonable progress toward both, on the other hand, all parties to the agreement stand to realize substantial gains.

Any attack on the problem of agricultural trade will have to be concerned with margins of effective protection, not with the numerous techniques of protection as such. During the Kennedy Round, the European Community proposed the negotiation of limits on levels of farm support, the <u>montant de soutien</u>. The proposal did not receive serious consideration in the Kennedy Round, but it's time may now have come. It is a concept that could be built upon for the forthcoming round of GATT negotiations.

The general formula would be to establish for each country a general level of effective protection, to freeze that level, and to provide for its gradual reduction over a period of time. It should be possible in this way to reduce the margin of effective protection by an average of 50 percent over a period of ten years.

A companion agreement would establish rules and procedures for the creation and disposal of stocks of agricultural commodities. These would serve three purposes: (1) to build a reserve against commercial emergencies of the magnitude of that of 1972-73; (2) to provide a buffer against year-to-year fluctuations in supplies of agricultural products on world markets; and (3) to build reserves that would be available to the developing countries in time of serious shortage. At the heart of such an arrangement would be agreement that requirements for stocks would be jointly determined, that costs would be shared by all the industrial countries, importers and exporters alike, and that the disposal of stocks would be made by joint decision.

An agricultural settlement along these lines would imply a far-reaching extension of international cooperation. It would place additional but shared responsibilities on the nations that are at once the chief exporters and the chief importers of agricultural products. It would require procedures for consultation and joint action on agricultural problems comparable to those required for monetary management and industrial trade.

Alternatively, agriculture may once more be ignored in the new GATT round. Exporter views may be dominated by the favorable market outlook, while importers may choose to strike out for greater self-sufficiency. If crops are good for the next few years, agricultural output will again outrun effective demand. All the old issues -- spreading protectionism, competitive dumping, retaliation against subsidized exports, the large-scale use of food grains for animal feed -- will reappear. On the other hand, should a major producing nation have a crop failure, the reserves to cope with it will be available only by accident. In short, the conditions will have been established for recurring divisions, political acrimony, and wasted agricultural resources among the industrial countries, and for potential disaster among the poor in developing countries.

I. Introduction

Agricultural policies, including policies toward international trade in agriculture, have preoccupied governments for decades. In part, this is because agricultural policies have multiple objectives which are not always easily reconciled and which change over time. Some of the principal objectives-- the relative importance of which differs among countries-- may be described as follows:

- To improve farm incomes and raise agricultural productivity. The chronic lag in incomes of farmers in relation to incomes in other sectors has been a determining factor everywhere in decisions about farm policies.

- To maintain a viable rural sector in rapidly urbanizing and industrializing societies. This is an objective which finds strong support in political, social, environmental, economic, and even aesthetic considerations, so that the maintenance of a farming population becomes an aim in itself, to some extent independent of questions of farm productivity.

- To provide supplies of agricultural products for the consumer at reasonable prices. This objective has taken on added force recently as inflationary pressures have mounted in the world. Prices for food and fibers are politically sensitive and have a potentially pervasive impact on most other prices through their effect on wage levels.

- To assure security and stability of supply for basic commodities. This has come to the fore in the wake of shortages, escalating prices, and controls on exports and is an issue to which political leaders must give a high priority.

- To insure against the possibility of world famine and to promote the effective use of agricultural resources in the developing countries, both through foreign assistance and in providing satisfactory markets for agricultural exports.

- To avoid doing excessive damage to international relations, while pursuing domestic agricultural aims. This is an objective that has often been neglected, but still one which governments cannot afford to ignore.

- To accomplish all the foregoing objectives at least cost to national treasuries or taxpayers, for the burden of farm policies is substantial and is politically divisive.

In this report we intend to consider ways in which international cooperation may enhance the possibilities for reconciling and achieving these objectives. The round of international trade negotiations that has just been started provides an opportunity to improve the means for such international cooperation. New ground rules for trade and for agricultural policies will be considered in these discussions. And, as will also be true in negotiations about industrial trade, without agreement between the European Community, Japan, and the United States the chances for a successful outcome are slight.

As difficult and complex as the pending negotiations promise to be, there are reasons for supposing that in the period just ahead significant steps toward resolving agricultural problems may be feasible.

First, agricultural prices are unprecedentedly high, markets will be buoyant for the next year at least, and the surpluses that once seemed so burdensome mostly have vanished. A unique opportunity exists to examine the future of agricultural trade without the extraordinary tensions of the period when the struggle for commercial markets was dominating. And second, recent events have called attention to serious vulnerabilities in the present organization of world agriculture. In the industrial countries the most extensive economic boom ever to occur has sharply increased demand for agricultural raw materials and foodstuffs alike. In the developing countries, population growth, rising incomes, and lagging production have put added pressure on available agricultural supplies. And last year's exceptionally bad grain harvest in the Soviet Union, together with poor crops in some other areas, has set the world on the edge of potentially catastrophic food shortages. Another bad harvest could mean a scramble for supplies and even higher prices in the industrial countries and possible famine in those developing areas of the world that would be priced out of the market. Reserves of wheat in particular are at low levels, and the margin of insurance against any large-scale crop failure is dangerously narrow. So strong have been demand pressures on limited supplies that export controls have been resorted to by a number of countries, including the largest exporter, the United States. These developments have raised fundamental questions about agricultural trade relations, which in turn will require a re-examination of international responsibilities.

It is in this context that the role of international cooperation in world agriculture must be considered. To proceed to a complex subject, we shall begin with an overview of world agricultural production and trade. Thereafter we shall look at the agricultural policies of Western Europe, North America, and Japan — at their accomplishments, their failures, and the trends they have set in motion. Lastly, we shall discuss the agricultural measures that might be feasible to negotiate and that would serve mutual interests: satisfactory assurances about supplies, markets, and prices; adequate food reserves to avert famine in the poor countries; a dampening of inflationary pressures in the industrial countries; and strengthening of the rural sectors of our countries.

II. The Pattern of World Agricultural Production and Trade

Present tight supplies and high prices should not obscure the underlying trends in world agriculture. Over the past decade production has been more than adequate in the industrial countries and less than adequate in the developing countries. Indeed, this marked and persistent contrast shapes the pattern of world agriculture and some of the underlying issues relating to trade.

Cereals. In the industrial countries, per capita agricultural production and consumption consistently grow by more than 1 percent a year, in the former because of steadily improving yields and in the latter because of a continuing shift to greater consumption of animal proteins, made possible by the spread of affluence. Currently, these countries as a group consume more than 1,400 pounds of cereals per person per year, increasingly in the form of meat rather than directly as cereals.

By contrast, agricultural production in the developing countries has barely kept pace with the growth in population, which continues to exceed 2 percent a year. In fact, as a result of the poor harvest in 1972, per capita production was slightly below the level of ten years ago. These countries as a group currently consume barely 400 pounds of cereals per person per year, almost entirely as cereals rather than in the form of meat. This low aggregate figure conceals a further difficulty: per capita consumption has been relatively stable for the past decade. This means that improving diets for the large number of people in these countries whose incomes have risen must have been matched by worsening diets for those who are least well off.

These contrasting trends in agricultural production and consumption underlie the structure of world agricultural trade. The industrial countries, which can rely more heavily on international specialization in agriculture as well as in industrial production, include the largest exporters of agricultural products as well as the largest importers. Most of the developing countries, on the other hand, tend by necessity to be closer to self-sufficiency in agriculture since they have neither the economic base nor the export capacity to finance a heavy dependence on food imports.

For the main cereals - wheat, coarse grains, and rice[1] a simplified picture of world production, trade, and consumption, as projected for 1973-74 is shown in Table 1.

The dominance of the industrial countries in world cereals production and trade is evident from the table. With only one-fourth of the world's population, these countries account for almost 60 percent of world production of the main cereals, nine-tenths of world exports, and two-thirds of world imports. Nonetheless, exports of cereals from industrial to developing countries, while relatively small, make up an important part of the world food picture. They represent about 7 percent of consumption in the developing countries --a marginal but critical element of their basic food supply. Almost one-third of these exports, about twelve million tons, is financed either by grants or by loans on highly concessional terms. This amount has remained fairly stable, emergencies aside, for the past decade.

These consumption and trade patterns highlight the importance

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Table 1

Projected World Grains Production, Trade and Consumption, 1973-74

Millions of metric tons

Country	Production	Exports	Imports	Net trade	Consumption
Industrial countries	688	121	83	38	650
United States	239	69	-	69	170
Canada	38	19	-	19	19
Western Europe	133	19	45	-26	159
Japan	14	-	19	-19	33
USSR	152	4	11	-7	159
Eastern Europe	86	-	8	-	94
Other	26	10	-	10	16
Developing countries	507	15	54	-38	545
China	157	1	8	-7	164
India	123	-	6	-6	129
Other	227	14	39	-25	252
Total	1,195	136	136	-	1,195

Sources U. S. Department of Agriculture, Foreign Agriculture Circular, World Grain Situation: Review and Outlook (Aug. 24, 1973). Food and Agriculture Organization, "The State of Food and Agriculture, 1973" (Preliminary Version) (August 1973).

Note: These projections assume no changes in stocks. Grains include only wheat, rice, and feed grains. Production of rice is calculated in terms of paddy.

of grain reserves as a stabilizing factor in world agriculture. The rapid run-down of stocks during the past year dramatizes the problem, but in fact a trend toward declining reserves has been under way for some time. In the past decade, carry-over stocks in the major exporting countries fell from 15 percent to 9 percent of world consumption. Prudence would call for rebuilding and enlarging these stocks. Population growth and affluence will lead to an increase in world consumption. And as consumption rises, larger grain reserves will be necessary to deal with swings in world production--both to prevent sharp price changes in the industrial countries and to avert famine in the poor countries.

Other Agricultural Products. While cereals are the basic element in the world food supplies, they account for only half the volume of world agricultural trade and for a smaller proportion of its value. The balance consists of four groups of commodities, which vary greatly in the conditions under which they enter world trade.

One group consists of such commodities as oil seeds, cotton, and wool. Trade in these items has been relatively free of restrictions, although there are exceptions to this generalization as in the case of the high and anachronistic U. S. tariff on wool. The principal aim for this group, in any case, should be to resist any efforts to impose new trade barriers.

The second group consists of tropical products, such as coffee, cocoa, tea, and rubber. These are produced in developing countries and sold in the industrial countries. For this group access to markets is largely unrestricted, but excise taxes on the beverage products from tropical areas limit their consumption and should be further reduced. In addition, there may be further scope for stabilization measures through international commodity agreements.

A third group consists of such commodities as sugar, citrus fruits, meat, tobacco, and wine, which are produced in both industrial and developing countries-- frequently under heavy protection in the former--and where problems of market access persist. Of these commodities, sugar has the greatest potential significance for the organization of world agriculture. The developing countries account for half of world sugar production and the bulk of the world's sugar exports. As producers with a strong comparative advantage they would gain substantially from reduced protection and production in the industrial countries; and the industrial countries would gain from the consequent more efficient use of their resources. Much the same considerations apply to the other internationally traded commodities in this category-- meat, tobacco, wine, citrus fruits, and certain processed farm products. Adjustment in these cases would lead to more efficient use of resources, an increased volume of trade, and a better division of labor between industrial and developing countries.

Finally, both the United States and Canada have high barriers against dairy product imports from competitive suppliers in New Zealand and in Western Europe. It is difficult to see how the dairy restrictions could be left untouched in a trade negotiation aimed at improving the conditions for agricultural trade.

The Major Issues. Two types of agricultural problems facing North America, Western Europe and Japan emerge from this overview. One relates to their capabilities for improving food supplies in the developing countries and the other to their potentialities for achieving increased agricultural productivity and improving trade among themselves.

As for the food supply problem, the industrial countries have unique capabilities for averting large-scale human catastrophe in the event of drought or other agricultural disasters. This will require maintaining satisfactory grain reserves: the rich countries have the means to finance them, and the poor do not. Second, the industrial countries can use foreign aid programs to promote agricultural production in the developing countries. Third, they can provide greater market access for agricultural exports from the developing countries-- notably for sugar-- and thus help the developing countries make more efficient use of their agricultural resources. Fourth, food aid programs will have to be continued as an interim measure, with greater emphasis on ensuring that food grants do not reduce incentives to production. In the end, adequate food supplies and diets in the developing countries cannot be achieved by bringing in resources from abroad. The amounts needed are simply too large. In this connection it is worth noting that total grain imports from the rich countries amount to little more than the increase in food requirements stemming from two years' growth in population and income in the poor countries. A satisfactory resolution of this aspect of the world food problem, therefore, must depend on improving agricultural production through policies adopted and applied by the developing countries themselves.

Prospects for rationalizing world agriculture, on the other hand, will depend in large part on whether the industrial countries can agree to reduce or remove their own restrictions. While the gains can be very large for all countries, to move in this direction is by no means a simple or straightforward matter. It brings up the normally difficult problems of adjustment to economic change, which in the case of agriculture include complex consideration of political and social stability. And in the present world situation, it will require new ways of gaining assurances about supplies and prices. Before examining the possibilities of achieving greater international cooperation in agriculture, it will be useful to review the present agricultural policies of the industrial countries and the degree to which they have worked.

III. Farm Policies: Aims and Accomplishments

The agricultural policies of the European Community, North America, and Japan have been remarkably alike in their objectives and in the techniques used to achieve those objectives. A principal aim in all cases has been to increase the returns to farmers and to narrow the disparities between farm and non-farm incomes. At the same time there has been constant political concern for minimizing the social tensions of agricultural adjustment. Governments have also sought stable prices and agricultural supplies for consumers. They have increasingly become anxious to preserve the rural sector, for environmental and other grounds. And most of the time there has been the goal of protecting or strengthening balances of payments.

The usual policy technique has been to support farm prices above free market levels by administrative means--direct price supports or output restrictions, or a combination of both. The United Kingdom and later the United States, and to a minor extent the European Community and Japan, have used direct payments to supplement some farm incomes. In practice, however, farm policies everywhere have tended to favor higher-income farmers and to freeze the patterns but not necessarily the levels of production.

These policies have had positive results: Net agricultural incomes have been higher than they would have otherwise. Farm incomes have been less subject to fluctuation, and prices to consumers have been more stable. Total output has grown steadily, and the problems of adjustment in rural communities and among the farming population have been mitigated.

But against these achievements can be set some evident shortcomings.

Despite very sharp declines in farm employment -- the European Community's farm labor force fell from 21.5 million in 1950 to 10.5 million in 1970, North America's by one-half in the same period, and Japan's by one-third in the decade 1960-70--the overall gap between farm and non-farm incomes was not eliminated in any country. General price support policies necessarily did the least for the poorest farmers. These farmers, lacking land, capital, or skills, or all three, had the least to sell and therefore got the fewest benefits from product price supports. The farmers who were best off to begin with were the ones who benefited most.

The farm price support programs have been reflected to a very large extent in higher land values and increased returns to capital. Because of price supports, owners of land have been able to get higher rents and to realize capital gains when land changed hands. It is probably fair to say that these were unintended results, but they have been pervasive.

Moreover, the farm policies of the past two decades have been expensive to both consumers and taxpayers. A number of estimates are available, but figures for 1968 provide comparative data. In that year, costs of agricultural programs, to consumers plus taxpayers, were $13 billion in the Community and $10 billion in the United States. Public expenditures alone on agriculture in Japan in 1968 were almost $3 billion, much of which went to support the price of rice to the consumer at more than three times the world market level.

The costs of farm policies of course have not fallen only on domestic consumers or taxpayers. When the European Community's Common Agricultural Policy (CAP) requires the European cattle grower to pay artificially high prices for his feed grain, he, as well as the European consumer of meat, is disadvantaged. So also are the lower-cost feed producers in North America and elsewhere, who would supply more of the European market if the CAP allowed them to.

The losses caused by policies that limit international specialization go beyond the immediate misallocations of resources, though the latter are substantial. Secondary distortions are also important. Again in the protected European Community market, soybeans, which have escaped import restrictions, have been used in place of protected feed grains costing substantially less in world markets. In the Community, several million tons of wheat are usually denatured each year for use as feed. And of course beyond the farm sector there are further distortions and additional costs in the form of lost possibilities for trade in other kinds of goods. The losses resulting from these pervasive maladjustments are seldom considered in assessing farm policies.

Price support policies have also usually worked to generate surpluses, since they discourage consumption as production is encouraged Surpluses, apart from what is disposed of as aid to poor countries, eventually must be sold in other markets, with export subsidies providing the margin between domestic and world prices. To the "normal" suppliers of these markets, this dumping of surpluses has seemed doubly unfair. First, they have been deprived of access to markets in the countries producing surpluses, and then they have found themselves subjected to new competition in third markets. The response, predictably, has been to engage in competitive dumping and to contribute further to an environment of general bitterness. All in all, it is fair to say that in recent years no aspect of commercial policy has been more abrasive of international amity than the practice of subsidizing exports of agricultural commodities.

Export subsidies are income transfers from one country to another, and they have taken some odd turns. One much publicized incident was the recent sale, by the European Community, of 200,000 metric tons of surplus butter to the Soviet Union. The realized price was twenty cents a pound for a commodity that had cost the Community's taxpayers just over one dollar a pound. The loss, so to speak, was some $367 million.

Of much greater consequence for the world was the massive subsidy received by the USSR on its 1972 imports of wheat and other grains from world markets. These emergency imports were on the order of 28 million to 30 million tons, by far the largest incremental grain sales ever. (In 1966, when India faced a famine, the additional grain shipments that resulted totaled 14 million tons.) Incredibly, the USSR was able to make this enormous added claim on world supplies with only the most marginal impact on the prices it paid. The United States, Canada, Australia, and the European Community all had a share in this international beneficence. Each was so accustomed to worrying about what its competitors might do that none saw the fatuity of its subsidy policy. And this bargain for the USSR probably increased the volume of its purchases and thereby contributed to the subsequent skyrocketing of grain prices.

In sum, the customary farm policies of our countries have contributed to farm stability and to agricultural adjustment. They have also had many failures. Awareness of this mixed record and the extraordinary agricultural developments of the past year suggest that a reconsideration of the nature and direction of farm policies would be in order. At least temporarily, it is the consumer rather than the farmer whose income is a matter for official concern. Demand for livestock products inevitably will grow. Anxiety about preserving the rural environment may lead governments to look for policies that will provide greater benefits to poor farmers. There are indications, as we shall see, that the movement away from rural areas, in contrast to the movement out of farming employment, may in any case be slowing down. It will be useful to consider, therefore, whether farm policies could abandon the rigidities of the past without intolerably disruptive effects. This question is discussed in the next section.

IV. Can Agriculture Adjust?

It is quite probable that, during the course of the new GATT round, the world will emerge from the current period of greatly inflated farm product prices. The present interlude, in which trade restrictions have been overshadowed by tight supplies and high prices, will be succeeded by one in which there is a return to more "normal" agricultural relationships-- with relative prices determined by official mandate to favor some kinds of production over others. The GATT negotiators will need to discuss the possibility of changing the resulting structure of world trade in farm products.

The fundamental question to be answered is how much change in agricultural trade patterns will be accepted by the major bargaining parties. Answers to this question will revolve around the further question of the rate and extent of the adjustment that the agricultural sectors of the industrial countries are expected to make. Stability of the farming industry and the related countryside is highly important to these countries, and thus abrupt adjustments are not likely to be acceptable. Neither will arrangements be acceptable that do not provide reasonable prospects of secure food supplies. Both aspects must be part of the bargaining process.

A first point, therefore--and one not always sufficiently recognized--is that any conceivable agreement on agricultural trade will be based on gradual change. This is the time-honored GATT pattern. It will be followed by all participants because each will have his own adjustment problems to consider.

The principle of gradualism, moreover, would have underlying market forces working hand in hand with changes in trade patterns. In Western Europe and Japan consumer demand for meat will be growing as incomes grow. Official policies may slow this process, but they will not prevent it. Shifts in price relationships in favor of livestock as against other farm products will only facilitate a process that will go on anyway.

Agricultural employment and the population actively engaged in farming the industrial countries are destined to decline under virtually any possible circumstances. That the process is certain, however, does not mean that resulting problems can be wished away. Even in high-employment economies, some social and political stresses will be associated with rapid economic change, whether in agriculture or in other industries. Governments can help to ease these stresses by various kinds of adjustment measures, such as retraining programs for displaced workers. Regional policies too can serve to cushion the adjustment problems in rural communities. Freer trade will itself lead to shifts within the agricultural sector through its influence on relative prices and farm profits. In turn, there will be effects on income that are adverse as well as favorable. Even if this takes place quite gradually, the adverse effects undoubtedly will call for remedial actions by governments.

Changes in the pattern of agricultural output do not imply a depopulated countryside. In buoyant, expanding economies, non-farm jobs do get created in rural areas for workers who are leaving farm employment. In only 15 percent of Japanese farm households are the working members engaged exclusively in agriculture, and 60 percent of the households depend on other sources for most of their income. In the United States by 1971 some 45 percent of the people living on farms worked at non-farm jobs and 53 percent of farm family income came from these jobs. A recent European Community report showed that one-fourth of the working population living on farms had non-farm employment, and this proportion might increase substantially in the future. Government measures to encourage the decentralization of production may be useful in assisting this adaptation and in conserving a desired balance between urban and rural life.

FAO projections suggest that in Western Europe and Japan the flow of workers from the farms will accelerate further between 1975 and 1985. These estimates, it should be noted, are based essentially on the assumption that the farm policies operating in 1970 will be continued more or less indefinitely. Unfortunately, there are no detailed estimates of the probable movement out of agriculture if protection is reduced significantly rather than continued at present levels. Nevertheless, it is possible that trends might be little affected.

According to U. S. studies, relaxing restrictions might even lead to an increased demand for farm labor. This is because farm policies typically have favored products that are labor extensive and land intensive. Agricultural protection in Western Europe, in Japan, and in North America has been focussed on crops, especially grains, rather than on livestock products, where labor requirements are usually greater. (This is aside from the very high degree of protection afforded the North American dairy industries.)

The European Community has paid the highest support prices for grains and sugar beets (used in part for animal feed) and has given the greatest protection to these products. This has resulted in disincentives to the livestock industry despite the fact that the value of Community livestock production (minus the cost of feed) is almost four times the value of protection for grains. A change in Community price relationships in the direction of more profitability for meat production might therefore increase the need for farm labor.

Japan's adjustment problems will be formidable, whether or not its agricultural trade policies are modified and if they are, whether it is done soon or not. The number and size of farms in

Japan have been changing only slowly. Rice production in paddy fields remains overwhelmingly the dominant agricultural activity, but the consumption of rice per capita has been falling steadily in response to rising incomes. Real wages outside of agriculture, which are rising at a rate of 6 percent a year, exert an irresistible pull on agricultural labor. There seems to be no way to hold enough workers in agricultural employment to maintain the existing structure of farming and farm output, or anything close to it. Adapting to a sharply declining farm labor force and to changing consumer food demands almost inevitably will require increased imports. Nevertheless, a shift in Japanese production toward animal protein would be expected and would mitigate somewhat the drop in farm employment. As elsewhere, the government's problem in liberalizing trade is made more difficult by entrenched habits of thought about agriculture and by the prevailing urban-rural political power. But fundamental pressures in the direction of new policies are mounting.

Farming in North America would benefit over all from liberalized world trade in agriculture, mainly because of the comparative advantage that U.S. and Canadian producers of cereals have. But both Canada and the United States would have to face up to significant and politically difficult adjustments in their dairy industries, and in a number of other less important farm sectors, under any program purporting to be a move away from protectionism. As for the impact of freer trade on North American farm employment, it would necessarily be quite marginal. Farm products that have a comparative advantage are labor extensive. Their expanded requirements, after account is taken of declines in protected sectors, would have a net positive effect on total labor use in agriculture of perhaps 5 to 10 percent. This would be a very modest offset to the reduction of one-third that would take place otherwise in the already greatly shrunken North American agricultural work force.

Insofar as most of the net income benefits from protection have been absorbed through higher returns to land, a significant lowering of protection would have its greatest effect on land values and land use. In the transition, land now used for crops that are shielded from import competition would shift to different uses and in some cases would fall in price. Lower land prices could encourage the consolidation of farms into units of more efficient size.

Reduced protection would require, for political and for equity reasons, various means for easing the adjustment, including direct income transfers to the farm sector during an adjustment period that might run for several years. Schemes for aiding price and income stability and security would have to be further developed. In addition, payments to farmers for the conservation of the environment would be necessary both on their own merits and as an adjustment measure.

In sum, it seems probable that a gradual disengagement from protectionism, together with effective domestic adjustment programs, could lead to a desirable and tolerable restructuring of world agricultural production and trade. The means to this end will require painstaking study and discussion. In the next section of this report we offer some general lines of approach that we think are practical and, if there is to be any hope for substantive accomplishment, inescapable.

V. Enlarging the Scope for International Cooperation

Experience demonstrates that agricultural trade will be the most difficult area for negotiating improvements in international economic relations. The reasons are apparent. Barriers to expanded international exchanges of farm and food products stem directly from domestic intervention and support policies. Typically, these domestic policies have taken precedence over general commitments to liberalization in international trade. As a consequence, comparative advantage has yielded to other considerations as a major determinant of the volume, composition, and location of agricultural production.

In earlier sections of this report some of the shortcomings of this approach to farm policy have been reviewed, notably its failure to provide satisfactory incomes to those farmers who are most in need of assistance, its high cost to the taxpayer, and its inability to provide consumers with the benefits that could be gained by taking advantage of the substantial differences in agricultural productivity that exist among nations. Reform of these policies, therefore, is as much, if not more, a matter of meeting internal needs than of providing a more liberal trading environment.

That being so, we believe that there are several general

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principles that governments should follow in modifying agricultural programs to assist farmers in adapting to changing conditions. These are:

- Specific social and regional measures, not general agricultural policies such as price supports, should be used in dealing with the problems of rural communities.

- There should be positive policies to facilitate structural adjustment. These could include assistance in establishing viable full-time farms and changing production patterns, encouragement of part-time farming where this permits effective use of human resources, and help to those migrating from farms.

- The problems of low-income farm families should be alleviated through transitional direct income support rather than general product price support.

- Price support measures should be designed to expand consumption and to be anti-inflationary.

- Price relationships should provide additional incentives to produce those products that have a growing world demand and reduced incentives to produce products with a stable or declining demand.

- Price supports should include disincentives for unwarranted production, including a provision to place on farmers part of the costs of the additional output.

Domestic programs based on these principles would reduce costs to consumers and taxpayers, assist farmers who are in greatest need, and help transfer farm resources to the expanding sectors of agriculture. They should be adopted in pursuit of national self-interest as part of an effort to deal more effectively with domestic agricultural problems. At the same time, by permitting greater flexibility in agriculture, they would facilitate the negotiation of reductions in barriers to agricultural trade and thereby help to promote the more effective use of agricultural resources, both at home and abroad.

We believe, therefore, that a useful link exists between domestic and international agricultural policies. In view of the political sensitivities involved, these two aspects of policy can complement each other only if care is exercised in choosing the means and defining the goals of international agricultural negotiations.

Rapid changes in the farm programs that lie at the heart of the agricultural trade problem are not to be expected. Nor is progress likely if the international dialogue takes the form of aggressive confrontations between strongly divergent and doctrinaire views. Negotiations having as their direct objective the abrupt termination of, or a fundamental change in, national agricultural support policies are doomed to fail in the future as they have in the past.

What is required is a patient, long-haul effort that proceeds in stages: first, the external impact of national agricultural policies should be given more weight in internal debates; second, national agricultural policies should increasingly take into account the differences in international costs and changes in supply and demand developments on the world market; and third, national policies should be modified progressively to bring them into harmony with internationally agreed standards and objectives through specific and binding commitments.

This is not a dramatic process, but we believe that it offers the greatest promise. Hence, we would emphasize that the multilateral GATT trade negotiations, if they are not to fail, must be only the beginning of this process of wider cooperation. Specifically, they should lead to concrete and significant progress in dealing with the two issues that we have previously emphasized will have to be connected in a successful international negotiation. One is to bring down barriers to international trade in agricultural products; any real improvement in the use of the world's agricultural resources requires that the most disruptive restrictions on trade should be reduced. The other is to provide assurances about the stability and security of supplies of the major traded commodities.

A variety of protective measures apply to agricultural trade. The most promising approach to dealing with them is to decide upon their actual restrictive impact and to agree on means for reducing it. In other words, the negotiators will need to focus on the effective margins of protection.

The security and stability of supplies will depend on the establishment of reserve stocks to meet fluctuations in the world market. The GATT negotiators will have the task of determining whether there can be international agreement on the financing and management of such reserves.

Reducing Margins of Protection

It bears repeating that all of the industrial countries will have contributions to make to an agricultural trade negotiation. No country has a monopoly on free trade virtue. None should be exempt from the effort to increase the proportion of the world's farm output that is produced under efficient conditions. Thus, negotiations in the field of agriculture should cover all farm products and should deal with all forms of protection and support, including domestic measures as well as restrictions at the border. This means that the negotiations should concentrate on the margin or degree of actual protection rather than on the means of technique used. In effect, the need is to build upon the montant de soutien or level-of-support plan, which was proposed but not seriously pursued during the Kennedy Round.

We believe that a general formula to this end could be developed along the following lines:

1. Margins of support or protection would be determined against an agreed base price. The base for each product involved could be the average of the prices (including subsidies) received by producers in the major exporting countries for a recent period, such as 1969-72. Next, these averages would be adjusted by adding the appropriate transportation and marketing charges. The margin of protection would then be the difference between the base price and the intervention or target price in the importing country or region during the same

period. It hardly needs to be emphasized that the price calculations undoubtedly would involve elements of judgment and negotiation; the principle, however, is clear enough.

2. The next step would be to agree to freeze margins of support, as these margins have been determined by agreement, and then to undertake their gradual reduction. A reasonable target might be an average reduction, covering all products, of 50 percent, to be achieved in stages over a decade.

3. In order to allow ample room and time for adjustment, the agreement might further specify that reductions in margins of support should not require reductions in nominal farm prices nor call for a reduction of more than 3 percent a year in the real prices (that is, after allowance is made for rising general price levels) received by producers.

4. It would be understood that agreed measures for social purposes, including programs for disadvantaged regions or low-income farm families, would not be included in calculating margins of support. As was noted earlier, governments would be responsible for designing social measures that would have minimum impact upon production.

This approach would have several advantages: It would exclude from the international base price the distortions introduced by export subsidies or by artificial encouragement of output. The base price would be recalculated each year to reflect actual returns received by producers in the major exporting countries. It would be above the world price for a commodity if exporters used export subsidies or paid subsidies to their producers. It would provide for gradual but progressive change. It would work against sharp year-to-year fluctuations in actual market prices. It would combine stability with flexibility. It would oblige governments to carry out farm policies with due recognition for the interests of other countries. Once embarked upon, the direction of change would be toward adjusting production to meet changing consumer demands. The tolerable pace of change might well turn out to be considerably faster than had been expected, and this too could be accommodated.

Security and Stability of Supplies

For many years nations that have depended upon a substantial volume of imports of agricultural products have been concerned about the continuity of supply. A variety of bilateral arrangements have been used for particular products. However, the recent actions of most exporters in halting or rationing exports have created a great deal of uncertainty in world markets and, understandably, among policymakers in governments.

Importers can argue, with some force, that exporters should not expect them to open their markets unless there is some way of guaranteeing that adequate supplies will be available at reasonable prices. Exporters, in turn, have argued that importers in the past have failed to carry adequate stocks; consequently when supplies were adequate--or in surplus--the exporters had to bear all the costs of holding reserve stocks for the world.

We believe that now is the time to consider a program of internationally supervised stockholding of major farm products. Three important objectives can be met by a stock policy for which responsibility is shared by the major trading nations. First, stocks can be held and managed so as to mitigate wide swings in prices and availabilities, such as occurred in 1972-73. Second, stocks can be managed so as to stabilize the volume of international trade in the face of fluctuations in output in both exporting and importing countries. Third, the industrial countries can help to finance strategic food stocks earmarked for the developing countries against the threat of famine. It is evident that if there were a crop failure in a large developing country in 1973-74, adequate food aid would be difficult if not impossible to organize because of the lack of stocks readily accessible to governments and because large-scale purchases at this time would push prices to extremely high levels.

The general principles that might govern an international arrangement for holding agricultural stocks can be stated simply: The costs of acquiring and holding stocks should be shared; and procedures for acquisition and disposal should be matters for international negotiation and agreement.

<u>Stocks for Commercial Emergencies</u>. These would be held by individual governments. The cost of acquiring and holding them should be allocated among participating governments on the basis of volume of production and consumption, or some combination of the two.

The size of the stocks deemed necessary for likely emergencies would be a matter for mutual decision. Acquisition of, and releases from, stocks could be by mutual agreement under general guidelines decided in advance; or price could be the criterion. That is, in an emergency, stocks would be released for the market when the world price reached or exceeded a predetermined level, and in a situation of surplus, would be accumulated when prices fell below a predetermined floor.

Buffer Stock Operations. To meet the narrower objective of minimizing year-to-year fluctuations in the volume and value of international trade in major farm products, a commitment could be made to offset the effects of variations in supplies. For example, a country--either an importing or an exporting country--would be required to add to stocks when its output exceeded, say, the level of a moving average of its output over the previous four or five years. Similarly, unless it were agreed otherwise, a country would release stocks when its output fell below the same average. The share of excess production set aside for stocks might be, for example one-half, with analogous provisions for those years when production fell short of trend.

As an alternative to a storage rule based on a relationship between current output and average output in the past, the requirement might be that stocks would be accumulated when an agreed international market price fell below a specified level and released when that price rose above a similarly specified level.

A buffer arrangement would establish an incentive for countries subject to wide swings in output to look for ways of decreasing these swings, or in the case of a product for which the market was growing slowly or not at all, the costs of holding stocks would tend to induce governments to modify support programs to hold down output.

A Strategic Food Reserve. Apart from stocks to cope with wide fluctuations in commercial trade and buffer stocks against smaller year-to-year swings in output, urgent consideration needs to be given to what may be called strategic reserves, established against the threat of sudden crop failures in the developing countries. As a practical matter, this would require financing of stock buildups in those developing countries that are unable to maintain adequate stocks on their own. It should be stressed that the size and costs of such insurance are not likely to be unacceptably large.

For a crude calculation, we may take as a benchmark India's cereal reserves of some nine million tons--the existence of which proved to be immensely helpful in bringing India through the difficult 1972-73 period. India uses roughly one-third of the total cereals consumed in the developing world, leaving China aside. Total reserves of twenty-five to thirty million tons might thus be assumed to be a reasonable target. All countries hold stocks to begin with. Some would be capable of financing any incremental amounts needed. So we may estimate that the added stocks to be held might be in the order of ten to twelve million tons. We may further suppose that these supplies could be purchased over a period of time at $100 a ton, and that annual storage costs would be $10 to $15 a ton. An investment of $1 billion, and an annual cost of $100 million to $150 million, might thus be a preliminary guess as to the orders of magnitude involved.

If strategic reserves of this kind could be agreed upon, they should be placed, as far as is economically feasible, in the developing countries themselves. This would assure that they would be readily available and not dependent on the availability of international shipping facilities. But some earmarking of reserves in exporting countries might be necessary because of the high cost of storage in tropical areas.

A Neglected Link to Industrial Trade Negotiations

The problems of agricultural trade have become so specialized and complex that the agricultural negotiations will necessarily have rules that differ from those on industrial trade. At the same time, it should be emphasized that farmers have a substantial stake in the negotiations covering industrial products.

First is the matter of the protection afforded to the processing of farm products in the industrial countries. Although nominal tariff rates on these products are usually low, the effective protection given them is in many cases extremely high. This is because the raw products themselves normally carry no duty, so that the nominal tariff falls wholly on the value-added element in the final cost. It is not uncommon for the effective rate of protection, therefore, to reach 50 or 100 percent, or even a higher level.

These effective rates of protection discourage the establishment of processing industries in the developing countries and deprive those countries of the accompanying employment opportunities. Special attention should be given to drastic reductions in--or the elimination of--tariffs on processed agricultural products of interest to the developing countries.

A second issue relates to the prices of products the farmer uses in agricultural production. Farmers cannot compete on a fair basis in agricultural trade if they do not have relatively equal opportunities to purchase their fertilizer, farm equipment, and other agricultural inputs at the lowest possible prices. At present, prices of these products differ substantially from country to country. In part, this is due to monopoly practices and cartel arrangements, the strength of which depend on how individual governments enforce their antitrust statutes. Trade barriers, however, are also a factor influencing differences in the price of farm inputs. Consequently farmers have a strong interest in seeing that duties and other barriers to imports of farm inputs are eliminated as soon as possible in the forthcoming trade negotiations.

VI. Concluding Comments

The proposals outlined in the preceding section are in no way modest. If they were to be accepted and elaborated in the forthcoming GATT round, the outlook would be for far-reaching changes in the international economic and political scene.

Taken alone, a decision to negotiate a reduction in agricultural protection would be a major development in world economic relations. During the whole of the postwar period, agriculture as an industry has been outside the mainstream of international cooperation. While barriers to industrial trade have been progressively whittled away, restrictions on imports of farm products for the most part have persisted and been tightened, with a necessarily divisive impact on the comity of nations. To make a significant start on reversing this trend would be a contribution not only to efficiency in using scarce resources but also to reducing measurably the area of international discord.

What we have suggested is a gradual reduction of protectionism, with full attention to the special characteristics of agriculture and with provision for safeguards and effective forms of adjustment assistance. As has become the rule in trade negotiations, a target would be set for a date well in the future, to be reached in stages. While the pace would be only as fast as political realities allowed, its direction would be unambiguous. Once embarked upon, the process might reasonably be expected to accelerate, since it would be consistent with forces already well under way.

The companion agreement on the financing and control of stocks of agricultural products would involve a very considerable departure from past practice. Until now, reserves have been held as a matter of national policy, usually to support predetermined price objectives and only incidentally or accidentally to serve broader needs. We have proposed, in effect, that reserves henceforth should become an international responsibility, with their costs and their control subject to multilateral understandings. We see this as a necessary counterpart to agricultural trade liberalization, as an action that will contribute to stability of supplies and prices, and as an urgently called for response to the persistent threat of human catastrophe in the developing countries. This approach is the only alternative to the spreading use of unilateral export controls when supplies are short.

We recognize that our recommendations would place heavy demands on the international community's capacity and institutions for cooperation. A negotiation aimed at reducing trade barriers and at sharing the costs and the management of reserve stocks would surely be difficult. The principal alternative, however, is to do little or nothing internationally about agriculture and to concentrate on less demanding problems.

Indeed, it might be natural enough at this time for exporting nations to rest on their favorable short-term market prospects -- whatever the risks of a reversal -- and for importers to be engrossed with the claims for a more nearly self-sufficient agricultural position -- whatever the economic cost. In that event, two results could be expected. Surpluses of the principal traded commodities will reappear a few years hence, to be thrown on markets at subsidized prices because no country will want to pay the costs of holding them. The familiar pattern of competitive dumping and international recrimination and retaliation will be revived. And since stocks will be no one's responsibility, it will be a matter of happenstance as to whether or not world reserves will be sufficient to make up for the next serious crop failure.

The options are thus between a much broadened scope for mutual action and responsibility and a narrow but accustomed view of individual agricultural policies unilaterally determined. We believe that there should be no question as to which should be chosen.

Statement of
Norman Lavin and Fred Rothschild
Co-Chairmen of the
Joint Government Liaison Committee
Association of Brass and Bronze Ingot Manufacturers
Brass and Bronze Ingot Institute
before the
Subcommittee on International Finance
of the
Senate Committee on Banking, Housing and Urban Affairs
on
S. 2053 and H.R. 8547

September 27, 1973

Mr. Chairman, the Joint Government Liaison Committee appreciates this opportunity to present its views in support of enactment of S. 2053 and H.R. 8547, bills to amend the Export Administration Act of 1969.

The Joint Government Liaison Committee is composed of the Association of Brass and Bronze Ingot Manufacturers and the Brass and Bronze Ingot Institute. The members of these two trade associations represent approximately 80% of the brass and bronze ingot produced in the United States. Our industry serves an important role in the economy by recycling each year over 250,000 tons of copper and other nonferrous waste and scrap. From this waste and scrap we produce brass and bronze ingot--an economic raw material used by the nonferrous foundry industry to produce castings.

We believe that enactment of S. 2053 or H.R. 8547 will provide new jobs in the United States, conserve energy, protect the environment and improve the balance in trade. The United States is and has been a net importer of copper. The first interim report of the National Commission on Materials Policy issued in April 1972 estimates that the United States demand for copper will increase from four million tons in 1975 to 10 million tons in 2000. This projection also shows that in order to meet this demand net imports of copper must increase from 500,000 tons in 1975 to 3 million tons in 2000. With a projected increase of imports of such a magnitude there is justification and need to control exports of this valuable resource. However, during each year since 1952 the United States has been a net exporter of copper and copper-base alloy scrap. Copper must be imported to take care of our needs and in addition to replace all copper that is exported. In order to provide more jobs in the United States, exports of copper should be in finished goods and <u>not</u> raw material such as copper base scrap. When copper base scrap is exported and finished products containing copper are imported, which is now the case, the United States is in effect exporting jobs.

One apparent solution to the United States' serious balance of payments problem is to increase exports. However, a sweeping solution of this type does not cover all commodities. There is no advantage to the balance of payments if the United States exports a commodity of which it is not self-sufficient. Increased exports of this type item can only be followed by increased imports. In the case of exports of copper and copper-base alloy scrap the situation is even more self-defeating. Scrap is one of the lowest value forms of copper. Therefore, every pound of scrap exported must be replaced by the import of a higher value form of copper. This means that as exports of copper and copper-base alloy scrap increase, the United States balance of payments becomes more unfavorable.

Policy to limit exports of copper and copper-base alloy scrap coincides with the national goals to conserve energy and protect the environment. The total energy consumed in recycling a pound of copper or copper-base alloy scrap is substantially less than the total energy required to produce a pound of primary copper. This takes into consideration the total energy needed to collect, prepare and refine the scrap into a form comparable to primary copper. The energy saving is a positive contribution not only to the United States trade deficit problem but also to the United States environmental problems. The mining of ores is a negative factor on the environmental balance sheet, whereas the collecting and recycling of scrap is a positive factor.

Background on Export Control on Copper Base Scrap

For more than 30 years, until January 27, 1972, exporters of copper base scrap were required to obtain validated export licenses from the Department of Commerce before making export shipments. For the past three years the authority for this licensing was contained in the Export Administration Act of 1969. Also under the authority of this Act, until September 3, 1970, exports of copper base scrap were subject to quantitative quota controls. We fully supported these export controls and believe that the removal of the controls in September 1970 and January 1972 was premature and not in the best interest of our nation.

Exports of copper base scrap were permitted to increase from 39,000 copper-content short tons in 1962 and 1963 to 94,000 short tons in 1964 and 79,000 short tons in 1965 before the Government placed quantitative quotas on exports. During the same period prices of scrap, as reported by the Bureau of Labor Statistics, increased 50%. We believe that the imposition of quantitative controls was fully justified at a much earlier date than November 1965.

Even with quantitative export controls in effect, exports continued to increase and reached 97,000 short tons during 1968. This increase was due to a major loop-hole in the Department of Commerce regulations which permitted unlimited exports of copper base scrap to Canada. At the time exports of scrap from the United States to Canada were growing at a rapid rate, exports from Canada to Europe and Japan were increasing at a similar rate. This loop-hole was not closed until December 1968 after exports to Canada had increased from 1,000 short tons in 1965 to 19,000 short tons in 1968. Again, we believe that there was too great a delay in taking action to close a major loop-hole.

Untimely Removal of Export Controls

Quantitative export controls were removed September 3, 1970 and exports of copper base scrap during the fourth quarter of 1970 increased to 39,000 short tons which was the highest since the fourth quarter of 1964. This action by the Department of Commerce was followed on January 27, 1972 by the removal of the requirement for validated licenses to export copper base scrap. As noted above, this requirement has been in effect for more than 30 years.

The action to remove the validated license requirement was taken on January 27, 1972 even though there was a sharp increase in the exports of copper base scrap in December 1971.

Need For Controls Now

Since the first of this year (1973) the supply/demand of copper-base alloy scrap has become extremely critical. There has been a sharp increase in exports of copper-base alloy scrap and a corresponding increase in the domestic price. Exports of copper-base alloy scrap during January of 5,385 tons were in line with the average monthly exports during 1972. By June exports had increased to 8,625 tons and in July exports jumped to 20,501 tons.

The average price of heavy yellow brass scrap as reported by the Bureau of Labor Statistics was 22¢ a pound during January, and during July it had increased to 35¢ a pound. The price of No. 1 Composition scrap increased from 31.5¢ a pound during January to 47¢ a pound during July.

Position of Department of Commerce

We have presented these facts to the Department of Commerce and urged that export quotas be established for copper and copper base scrap. In testimony presented before another Congressional committee on May 15 a Department of Commerce witness very clearly stated the Department's position on export controls when he said they should be used sparingly. He added that they constitute an impediment to free trade and have an adverse impact on our balance of trade and should be imposed only when the national interest clearly outweighs these conditions.

As noted above, we do not believe that export controls on copper and copper base scrap would have an adverse impact on the U.S. balance of trade, but would in fact have a beneficial impact. However, more importantly, we do not believe that the Department of Commerce is applying the provisions of the Export Administration Act as it was intended by the Congress.

Taking the Department's conditions for assessing the need for short supply controls (i.e., is the commodity in short supply domestically and under serious inflationary pressure, and are these conditions attributable to abnormal foreign demand?) we find affirmative answers to each of the three factors. (1) Short supply? Yes, the U.S. is a net importer of copper. In 1972 the U.S. imported 415,618 tons of ore, concentrates, matte, blister, and refined copper, and exported 234,546 tons--a deficit of 181,072 tons. (2) Inflationary pressure? Yes, prices increased over 50% from January to July this year which was a much more rapid increase than the wholesale price index, industrial commodities index or even the nonferrous metal index. (3) Abnormal foreign demand? Yes, an increase of 280% in exports from January to July.

In view of the reluctance of the Department of Commerce to use the present authority of the Export Administration Act of 1969, we believe that it is essential that the Act be amended to make it more explicit as to when controls will be implemented. We urge the Subcommittee on International Finance to report H.R. 5769 to the Committee on Banking, Housing and Urban Affairs. We prefer H.R. 8547 because it is more comprehensive than S. 2053. H.R. 8547 provides for the Secretary of Commerce to make an investigation to determine which materials or commodities shall be subject to export controls as a result of present or perspective inflationary impact or short supply of such materials or commodities. It also provides for the Secretary of Commerce to develop forecast indices of the domestic demand of such materials and commodities. We believe these are very important provisions and urge that they be incorporated in any legislation reported.

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COMMITTEE FOR A NATIONAL TRADE POLICY

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SEN. JOHN SPARKMAN. & C. COMM.

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October 1, 1973

Senator John J. Sparkman
Chairman
Committee on Banking Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

Reserving judgment on the precise legislative criteria which ought to govern the imposing of controls on U.S. exports, I would like to suggest a procedural reform which I believe should be written into the legislation. I hope this letter can be made part of the published record of your Committee's hearings on S. 2053 and H.R. 8547.

I propose that, whenever the President imposes controls on U.S. exports pursuant to the Export Administration Act, he should be required to report to the Congress every 60 days (or some other reasonable interval) on steps being taken (a) to remove these controls and (b) to prevent the need for such extraordinary measures in the future. This kind of accountability would tend to accelerate removal of such export restrictions and give the Congress a better basis for constructive action on these issues.

Sincerely yours,

David J. Steinberg
Executive Director

DJS/cms

National Livestock Feeders Association
309 Livestock Exchange Building Omaha, Nebraska 68107 Phone: 731-5427

Livestock Feeders "Meat" The Nation

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September 27, 1973

SEN. JOHN SPARKMAN
RECEIVED
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WASHINGTON, D. C. 20510

Honorable John Sparkman, Chairman
Committee on Banking, Housing and
Urban Affairs
UNITED STATES SENATE
3203 Senate Office Building
Washington, D.C. 20510

Dear Senator Sparkman:

The National Livestock Feeders Association is strongly opposed to amendments to the Export Administration Act of 1969 that are contained in H.R. 8547 and S. 2053. In our opinion, the President has all authority necessary to administer any export controls.

Pending amendments would undo action by the Congress a year ago with respect to exports of agricultural commodities through the rewriting of Sec. 4 (e). Said amendments would afford favored treatment to given domestic users instead of focusing on protection of the nation.

We urge indefinite postponement of action on pending amendments. A more comprehensive statement of our objections is enclosed. It will be appreciated if this statement can be included in the Hearing Record.

Respectfully yours,

Don F. Magdanz

Don F. Magdanz
Executive Vice President

DM/sb
Encl:

National Livestock Feeders Association
309 Livestock Exchange Building Omaha, Nebraska 68107 Phone: 731-5427

S T A T E M E N T

of the

NATIONAL LIVESTOCK FEEDERS ASSOCIATION

to the

COMMITTEE ON BANKING
HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

Relative to

H.R. 8547 and S. 2053

TO AMEND THE EXPORT ADMINISTRATION ACT OF 1969

Presented by

Don F. Magdanz
Executive Vice President
NATIONAL LIVESTOCK FEEDERS ASSOCIATION
309 Livestock Exchange Building
Omaha, Nebraska 68107

September 27, 1973

The National Livestock Feeders Association is a voluntary non-profit, non-political trade association of persons engaged in feeding and finishing live-stock. Membership exists in 20 states, with the major concentration in the North Central Region of the Nation, an area which feeds 62% of the fed cattle marketed and produces 75% of the Nation's hogs. There are 200 state and local feeders associations affiliated with the National Livestock Feeders Association.

National Livestock Feeders Association
309 Livestock Exchange Building.
Omaha, Nebraska 68107

Statement On

H.R. 8547 and S. 2053

TO AMEND THE EXPORT ADMINISTRATION ACT OF 1969

The National Livestock Feeders Association is not in favor of the amendments proposed in the legislation under consideration and firmly opposes their enactment.

The provisions of H.R. 8547 directs the Secretary of Commerce 'to determine which materials or commodities shall be subject to export controls because of the present or prospective domestic inflationary impact or short supply . . .' In making said determinations, the Secretary is to consult with appropriate government departments and agencies, and technical advisory committees made up of representatives of industry and government.

The Secretary is further directed 'to develop forecast indices of the domestic demand for such materials and commodities to help assure their availability on a priority basis to domestic users at stable prices'.

We find the latter provisions especially troublesome and objectionable. The language is undoubtedly subject to varying interpretations, but as we read it, the amendment would most certainly refocus the intent of the Export Administration Act. The present intent focuses on the protection of the Nation; whereas, under the amendments, the focus would be shifted to that of providing favored treatment for given domestic users.

This would come about by giving them unchallenged access to priority supplies at "stable" prices, which may or may not afford the producer an opportunity to cover his costs, let alone make a profit. The Subcommittee is respectfully reminded that the word "stable" carries with it no connotation of high or low; prices can be stable at low levels -- the case for years with hides and skins -- as well as at high levels.

In addition, the bill would seem to give forecasts of domestic demand the dominant role in export control determinations, rather than actual conditions or developments.

Since Section 4(e) of the current Act pertains to agricultural commodities, the primary purpose of H.R. 8547 and S. 2053 is evidently to alter the manner in which these commodities are treated under the law. In view of this, we are prompted to call attention to the amount of time and serious study which went into the writing of the current language.

The members of the Subcommittee are aware that this part of the Act was amended during the last session of the Congress. The National Livestock Feeders Association participated in the rewrite and strongly recommends that the existing language be retained.

One of the serious problems encountered with the provisions of this section prior to the 1972 amendment was that it was not sufficiently specific and clear to definitively guide the Secretary of Commerce in his administration of the Act. We emphasize that the same problem would evolve under the pending legislation.

In considering H.R. 8547 and S. 2053, we respectfully suggest that due weight be given, also, to the present and future role which U.S. food and other agricultural products are destined to play in world trade. These products currently make an important contribution to the U. S. balance of payments and, in the future, will provide even greater positive assistance to our balance of trade. In fact, it may be said that food and other agricultural products have been the only bright light on the otherwise dismal U. S. trade front, in view of the extent to which U.S. industry has lost its favorable competitive position.

Surely, there is no problem that has been more crucial to this Nation than its overwhelming trade deficit and the accompanying deterioration of the value of its currency in terms of the currencies of other countries. The Congress will be ill-advised, therefore, to fashion restrictive export authority, along the lines laid down by the proposed bill, giving certain U.S. processors of agricultural commodities favored treatment.

For years American consumers have basked in the sunshine of plentiful high-quality, low-priced food of almost unlimited variety, conveniently available to them at the mere wave of their shopping lists. The same has been true of natural fibers. In fact, hides and skins are a good case in point. The low prices of hides and skins was a serious problem of long-standing for the cattle industry. As late as the 1960's, many packers and hide dealers reported throwing hides of Number 3 Grade into the rendering tank. This action is documented in the USDA publication, *Livestock and Meat Situation of January 1964.* Even as late as 1965, the average price for heavy native steer hides was only a little over 14 cents per pound.

Beginning in 1959, an aggressive effort was undertaken to promote the sale of hides and skins abroad. This effort has achieved some success and it has been the only salvation for the hide dilemma. Now, those domestic processors and manufacturers who have been lulled into innovative, operational, and sales complacency by years of low hide and leather prices are screaming for the heavy hand of government to bail them out by restricting the foreign sales of hides and skins; when, in reality, their problems stem from substantial increases in unit costs, resulting from the failure of productivity to keep pace with escalating wage rates.

But let us go back to the statements regarding low-cost food and our balance of trade problem.

Other countries of the world, and particularly those which have made giant strides in reaching a higher economic plateau and are now in a position to upgrade the diets of their people, are casting their trading eye more intently at the U.S. and its unparalleled ability to produce food and feed grains. A current case in point is the action of Japan to waive its import duty on pork and purchase a significant volume of U.S. pork; and, also, the move taken to increase its beef import quota 10,000 metric tons during fiscal 1973 (April 1973 through March 1974).

Most certainly, we need all the export help we can muster to bring our trade with Japan into closer balance. For years, she has taken ruthless advantage of our "ivory tower", non-reciprocal trade policy; and Japan is most assuredly not alone in this regard. Our overwhelming trade deficit in the past vividly reflects the extent to which other countries around the world have followed suit.

With several of these countries now turning their trading attention to U.S. foods, feed grains, and natural fibers (hides and skins in particular), we now see, on the horizon, a growing world demand for our production of these products and commodities, and -- what is most important -- an opportunity for such foreign sales to lend substantial assistance to our balance of trade.

No other problem faced by this Nation deserves more serious attention on the part of the Congress. And we urge the members of this Subcommittee to bear this fact in mind.

It is interesting to note that, without exception, as personal incomes increase to the point of making it possible to buy other than bare necessities, people turn to increased consumption of animal food products. This is true whether their basic, traditional diet is rice or some other foodstuff.

The American farmer with his unequalled technical production know-how and land resources has put the U.S. in a unique position to take advantage of the food consumption trends now developing in the world and of the growing world demand for hides and skins.

Any inclination on the part of the Congress to attempt, through legislation, to stop the hands of time, or turn them back, can result in serious harm to the largest and most basic industry of this country -- namely, Agriculture -- and can seriously jeopardize the chances of bringing our trade into balance.

Therefore, this Association respectfully, but strongly, urges the Subcommittee to indefinitely postpone action on the pending legislation now being considered in the form of H.R. 8547 and S. 2053.

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